APRIL27.CONT

S. HRG. 103–178

THE HOME INVESTMENT PARTNERSHIP PROGRAM

Y 4. B 22/3: S. HRG. 103-178

The Home Investment Partnership Pro... ARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

TO ASSESS THE EFFECTIVENESS OF THE NUMEROUS AMENDMENTS TO THE HOUSING AND COMMUNITY DEVELOPMENT ACT [HOME] AFTER ITS FIRST YEAR OF FUNDING

APRIL 27, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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THE HOME INVESTMENT PARTNERSHIP PROGRAM

TUESDAY, APRIL 27, 1993

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes, chairman of the subcommittee, presiding.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. The committee will come to order.

I'm pleased to welcome everyone to this oversight hearing on the HOME Investment Partnership Program.

In 1987, the Congress called upon a distinguished group of housing professionals, business leaders, State and local government officials, and community activists to help formulate a new direction in Federal housing policy.

The National Housing Task Force, as it was named, examined the housing needs of the country and developed a series of policy recommendations. The task force report, "A Decent Place To Live," formed the basis of what was to become the National Affordable Housing Act of 1990.

We're pleased to have the cochairmen of that effort here this morning as our lead-off panel.

The centerpiece of that act is the HOME program, based upon the task force's recommendation for a new Federal approach to foster and stimulate State and local initiatives to develop, renovate, and conserve low-income housing.

The HOME program was designed to build upon the energy and expertise of a new wave of affordable housing providers that emerged during the 1980's: State and local government, nonprofit organizations, community-based organizations, religious institutions, and lenders.

Instead of the Federal Government proscribing standard housing solutions, States and localities are given the flexibility to design programs tailored to their own housing needs. This was an effort to put a lot of the initiative and the impetus down at the State and local level, where people were actually living every day with the problem and using the Federal Government as a catalyst in that effort, but not as the prescriber of a standard solution.

Now, after a slow start, the HOME program now seems to be gaining some movement. Although I am concerned by the slow ex-

penditure of funds to date, I am encouraged by some of the other initial program indicators.

More than 4,000 home projects are underway and more than 1,200 of these have been completed. Jurisdictions all across the country are using the program for a broad range of activities, with a clear preference for the rehabilitation of existing housing. More than half of HOME funds have been used for rental housing and the average amount of home assistance has been modest, less than $15,000 per unit.

Our purpose this morning will be to look again at the HOME program and assess its effectiveness after its first year of funding.

Secretary Cisneros, when he testified before this committee several months ago, suggested that we may need to undertake wholesale changes to the HOME program to make it workable. However, I note that last year's Housing and Community Development Act made a number of significant amendments to HOME.

In other words, in a sense, fortunately, the Congress has anticipated these problems and made a number of proposed changes to the act and how the HOME would work. I think we need to implement and evaluate those changes and to take a hard look at implementation within the existing framework before we set off on another effort to do any sort of full-scale revision. Now I'm prepared to be persuaded on that issue, but at some point, we need to say, well, here's the framework we think is essential. Now you've got to take this framework and really put it into place and make things happen.

There are some that would argue that we've drifted away from the original vision of the HOME program as simple and easy to use. And in that regard, we've urged the Department to scrub down the regulatory regime which they have established, in some instances, almost failed to establish, pursuant to the legislation, in order to—often, the statute is seen as the cause of the impediment; but frequently it's the regulatory regime put into place to implement the statute.

Later this morning, we will hear from a panel of home users. But first, we're going to hear from Jim Rouse and David Maxwell. I don't think it's stretching to call them the fathers of the HOME program.

As chairman and vice chairman of the National Housing Task Force, they did extraordinary work in forging a new direction for Federal housing policy. Their perspective on the original vision for the HOME program and the progress in attaining that vision will be valuable to the subcommittee this morning.

I'm pleased to welcome both of them, but particularly pleased that Jim Rouse, a native Marylander and chairman of the Enterprise Foundation, is here with us. Jim Rouse has long been a visionary in urban policy and has done much to put that vision into place in Maryland and around the Nation and, indeed, abroad.

David Maxwell is well known for his very strong stewardship of Fannie Mae during his tenure as its chairman. Since retiring from Fannie Mae, David has continued his work in housing with endeavors such as the Maxwell Foundation, and is now active in a variety of activities, seeking to bring private business to eastern Europe.

Gentlemen, we're very pleased to have you here this morning. I'll turn to you in a moment, but first, I yield to my colleague, Senator Boxer, of California, for any statement she may have.

Senator BOXER. I don't have any statement. I'm looking forward to hearing the witnesses.

Senator SARBANES. Very good. Jim, I think we'll start with you, and then we'll go to David, unless you've worked out a different order amongst yourselves.

Mr. ROUSE. I'll just say a few introductory words, and then pass it to David, and he'll pass it back to me and I'll pass it to him, and we will share in this as the true partners we were in this legislation.

STATEMENT OF JAMES ROUSE, CHAIRMAN AND CEO, ENTERPRISE FOUNDATION, COLUMBIA, MD

Mr. ROUSE. It's a special pleasure to address you as chairman, Senator. We Marylanders are very proud of our senior Senator. You have been a strong, wise, informed, and consistent supporter of good housing legislation and we're very grateful for your work.

This legislation, or the task force report, really emerges from California, as Senator Boxer I'm sure is aware. This was Senator Cranston's initiative in appointing this task force back in 1987. He asked David and me to be chairman and vice chairman; but actually, we have been true partners in this task. We made our reports as we went along to him and to the minority leader and to the staff.

We have filed with the committee a review of the task force proposals and what has happened since, and we will amplify, to some extent, what we've said and be prepared to answer questions.

I'll ask David, who was masterful in his role with me, now to say a few words to the committee, and then I'll take it back.

STATEMENT OF DAVID MAXWELL, FORMER CHAIRMAN AND CEO, FANNIE MAE, WASHINGTON, DC

Mr. MAXWELL. Thank you very much, Jim, and Mr. Chairman and Senator Boxer.

We appreciate very much the opportunity to appear today and to discuss the task force report, which really was the foundation of the National Affordable Housing Act of 1990.

I think that it probably is important for me to say that I'm appearing here today on my own behalf. We have not polled the task force members to see if they agree with what we are going to say, and I don't myself represent any organization in housing or anything else in my appearance here.

Senator Boxer, just let me reinforce what Jim Rouse said about Senator Cranston. He really did bring this whole task force into being and thus, the whole scheme of the HOME program. He can certainly justifiably be known as the father of that program. He was very determined and he had great support from Senator D'Amato in bringing this about.

The task force had 26 members and it represented virtually every interest in housing policy. When I say that, anybody who is familiar with 50 years of housing policy knows that covers a broad

spectrum of people with intensely held views and strong convictions.

In addition to that, we had 70 position papers that were submitted from business and professional organizations. We had 20 special studies that were prepared by scholars and practitioners under the direction of Professors Langley Keyes and Denise DiPasquale of MIT. We had many witnesses that appeared before us to share their expertise. And we had a 40-member National Housing Policy Advisory Panel, which was cochaired by Leland Brendsel of Freddie Mac and Ira Gribin, who was then the president of the National Association of Realtors and is, of course, another Californian. So we absorbed a tremendous amount of information in the course of 6 months of effort.

Mr. Chairman, I can tell you that without the leadership of Jim Rouse, without his driving determination to get this work accomplished and to get out a meaningful report which really could serve as a blueprint for national housing policy, we never would have completed the job. Jim was masterful. And in fact, when it came to writing the report, a lot of the initial text of it, he and I, but mostly he, did the writing.

Now, we came out with the unanimous report, but making housing policy is just, in a way, like making legislation, I suppose. It was not an easy job to do that. There are compromises in this report. People gave way on some strongly held opinions. We had lots of arguments and lots of strong language. But we kept working on it and we finally came out with a report which everyone could support and which we were all quite proud of.

Another point I want to mention is that permeating the recommendations of our report was an acknowledgment by everyone on the task force that we couldn't say what we really would like to say about some of these things in terms of the resources that are needed because of the budget deficit. Of course, this is back in 1987 and 1988, and we're 4 years later and the budget deficit is an even worse problem. So we realized that there was no point in asking for unrealistic funding for the housing program that we outlined in this report.

We also felt that, in a way, it wouldn't be good citizenship on our part to do that. We feel, I feel today and we felt strongly then, that there were some misplaced priorities in our society and that more resources ought to be going to help our urban areas and to replenish our housing stock and to help poor people with their rental payments. But we did not want to put forward a report that everybody would dismiss forthwith because of unrealistic funding requests.

In that regard also, I should say that one of the topics of greatest debate among us was the question of the mortgage interest deduction. I don't intend to go into that here, but it's obvious that that is a tremendous housing subsidy for the upper- and middle-class. One-third of the benefit of that goes to households with incomes over $100,000. There is more than $50 billion in housing subsidies for households with incomes above $53,000, and less than $15 billion to households that have under $13,000 of income.

You could raise a lot of money, both for deficit reduction and for housing for the poor and community development if there were some limitations put on that. But this report was silent on that

and I don't intend to pursue that here because I know that that's a political issue that's very difficult for everybody.

Let me just conclude this part of my remarks by stating some basic principles that I think emerged from the task force report.

First of all, the housing problems of the poor are beyond solution by the market system alone, despite some assertions to the contrary during the last 8 years. And the solutions, if they are to be solutions, are very expensive.

It's very popular to knock the programs of the 1970's that came out of the 1968 Housing Act, and they are, obviously, in this time of budget restraint, impossible to fund. But they did produce a lot of housing for poor people, and we should recognize that.

The second principle is that there ought to be a steady and consistent commitment to address these community development and housing problems.

Mr. Chairman, when you said that you'd want to take a hard look at whether we need now to have another statutory framework after the 1990 and 1992 acts, I certainly respond very sympathetically to that statement because housing requires time, of course, to develop, and community development requires time.

Stop and start is absolutely deadly for these programs. So if they are constantly being changed, then they are going to be much less effective and we're going to waste a lot of money.

The third principle is that it's useful to have a goal. We have a goal in this report for a fit, livable and affordable home for all Americans by the year 2000. We recognize that that is a very idealistic goal, but our leader, Jim Rouse, insisted on that and he was absolutely right. The 1949 act had a goal which has never lost its validity of a decent home and suitable living environment for every American.

The 1968 act had a goal to produce 26 million housing units over the next 10 years. I think Congress should consider whether there shouldn't be some goal or standard for our housing and urban policy today.

The fourth principle is that housing problems are a continuum. If you cut off first-time home ownership, as has happened during the last 10 years, when the drop has been so dramatic in new homeowners between the ages of 25 and 35, which is the traditional age when people get their own homes, then those prospective homeowners are in rental housing and everything gets pushed down and at the bottom of the list are the homeless, who have no homes at all.

Fifth, we strongly asserted in the report that the Federal Government must play a key role, not as a micro-manager—I think it's quite evident that the Federal Government doesn't do well at that—but as a catalyst for local initiatives on the supply side and as a disburser of rent subsidies on the demand side.

Sixth, for production of low-income housing, the best programs are those devised and implemented in the community. We speak in the report of the "New Wave," community-based and community-supported programs, which are the best way of developing housing and better communities throughout the country. We found in the testimony and from the evidence of the work of the Enterprise Foundation, that all over this country, there is tremendous energy

going into community development, into producing housing on the local level. This is what we believe should be encouraged.

Seventh, housing policy must be comprehensive. The report said that we have learned over the last quarter century that housing problems are varied and complex. To be effective, housing assistance must assume different forms. These include direct expenditures to reduce the capital cost of housing, rental assistance, tax incentives, and Federal insurance and guarantees.

It is important for this committee to know that we reached this conclusion only after exhaustive consideration of simpler and more direct approaches, recognizing, as we did, that a silver bullet would be received with a great sigh of relief by policymakers. Sad to say, there's no silver bullet. There are no easy answers. And there are no cheap solutions to the grievous conditions suffered by our poor fellow citizens in their homes and communities.

With that, let me turn this back to Jim.

Senator SARBANES. Thank you very much. Jim.

Mr. ROUSE. Well, of course, I support the remarks made by David. We together filed the joint report that you have. To whatever extent he was expressing his personal views, why, I'm happy to incorporate them as my personal views.

Mr. MAXWELL. I also support the statement that we submitted. I should have said that.

Mr. ROUSE. Just one more word about the council of the task force itself.

It was a unique thing to us. When Senator Cranston asked us to do this, he asked us to name the council, raise the money, call the meetings, and run it ourselves. And we did. We selected 24 other people, very carefully chosen. We knew a little about the business. And we selected people who we felt were informed, experienced, and open in facing these issues, to the best extent that they could be open.

We said at the outset that we didn't expect a unanimous report, that there had never been a unanimous report in our knowledge to Congress on housing. It had always been a multivoiced report. And we said that we would include dissent in the report.

But, by gosh, there was no dissent. And there was no dissent because there was a common acceptance, a fervent acceptance, I might say, of the enormously serious conditions the country faces in housing and in the outfall from bad housing, and an awareness that we had to speak with a common voice. We had to reconcile the differences as evidence that they can be reconciled, and to urge Congress to achieve such reconciliation. It was, we felt, a remarkable performance and a significant one that that group of people could arrive at a common program.

The essential new ground of the report, as Senator Sarbanes has already noted, was embraced in what became called the HOME program. There was a wide recognition that the history of Federal programs that identified in detail what the local action should be, and prescribed it, created a kind of knee-jerk reaction throughout the country to whatever it was that Congress said. And, therefore, local governments had really lost their way of thinking about housing, only responding with resistance to new programs.

The HOME program said, let's decide on what are the essential directions of the Federal Government's concern, and let's identify those directions. But beyond that, let's put the money in the hands of the localities with wide discretion in the invention of new programs that will use the money more effectively. We wanted to see this diversity. We wanted to see this creativity. We wanted to see different kinds of answers through the community as lessons from one city to the next of how to approach this problem. That has been largely frustrated, initially, by Congress itself, I think out of concern as to whether HUD would really do what it ought to do, and there were a lot of restraints in the initial regulation.

They were largely corrected by the 1992 legislation, which did largely emancipate the program to be used as intended. But HUD, out of having its own ideas and also out of a certain distrust of whether or not the legislative requirements were being fulfilled locally, went ahead to prescribe in the most minute detail how this program was to operate. It became virtually impossible to effectively put it to work for its intended purpose. This is the reason, we think, that there has been so little of the money that has really reached any projects.

It's doing a little better now, but we have reason to hope and expect that under Henry Cisneros there will be considerable emasculation of those regulations and that it will be once again open to achieve its purpose.

An important Federal criterion was the targeting of programs for low-income people. This was new to the extent that it was called for by the task force and carried forward by Congress. But there was a very explicit call for the money to be focused on low-income people. There was also a call for local identification of the conditions that they saw in their cities that needed to be corrected and to make proposals as to how those conditions were going to be met by the allocation of the money. But not for approval by the Federal Government, but for a retrospective examination by the Federal Government.

It was initially, as proposed in the task force and as passed by Congress with the 1992 revisions, a very important program. It had in prospect having a major impact on housing, especially housing for low-income people, which is what the report clearly cited as the major housing problem in America.

Our cities are in very serious condition. One of the things that was so clear in the task force meetings was that people were very, very worried about the condition of American cities.

During the 5 years since this report, the conditions that were described in it have further deteriorated—increases in homelessness, violence, every one of the pathological conditions that marked our cities.

The homelessness has increased. We all know the most familiar figure in the data, that over 100,000 children in this country spend the night on the street or in shelters, an incredible condition for this country, that this should be so, unmatched in any other democratic industrialized country in the world. And the new forms of violence that we are experiencing day by day, new ways of killing people. In Washington, recently, the random shotgun killing of people from an automobile passing through the Mt. Pleasant neighbor-

hood and just shooting people at random for no other purpose than to kill.

The car killings in Florida, where people drive an automobile up and deliberately kill people who step off the curb; the car-jacking—we can't blame all this on housing, but housing is an important part of the vicious conditions that mark life in the city.

We must seriously ask ourselves what this means and what we will do about it. It is these conditions, all of them, bad houses in bad neighborhoods, schools that don't educate, health systems that don't care for the poor, drugs and crimes and homicides in warfare numbers, decreasing jobs, increasing joblessness that mark our cities—the crisis is bigger than housing, but it is housing, too.

The task force report in 1989 said, and I quote this:

> The task force knows that fit and affordable housing alone will not solve all the problems of the poor. Education, training, jobs, and health care are also part of our national concern and must be provided for on the national agenda. The plague of drug use and drug dealing must be confronted. But a decent place for a family to live becomes a platform for dignity and self-respect and a base for hope and improvement. A decent home allows people to take advantage of opportunities in education, health and employment. That means to get ahead in our society.

A decent home is the important beginning point for growth into the mainstream of American life. But just as housing cannot transform the conditions at the bottom of our society, neither can education, health care, drugs, jobs, nor the correction of any one aspect of the decaying conditions that mark the lives of the poor in our cities.

There are more poor people today than there were in 1988. There are fewer dwellings that are available and affordable to low-income people.

We pointed out in the task force report the enormous increase in poverty and a decrease in the housing affordable to people at $250 a month or less. This gap grows week by week. There is a bigger and bigger gap between the number of poor and what they can afford in housing and the supply of housing.

The New York Times had an article with which I'm sure you're familiar, but I refer to it so often, that I have to repeat it here. It had an article which really became a billboard shouting about the conditions in the American city. It reported that there are more people in jail in the United States per 100,000 than any other country in the world, more than in any industrialized, democratic nation by far.

There are 11 people in jail per 100,000 in Japan. 111 in Canada. 333 in South Africa. But 455 people per 100,000 in the United States are in jail. Think of this. And it steadily increases. The number of people in jail per 100,000 steadily increases in America. There are more black people per 100,000 in jail in the United States than there are in South Africa.

Housing needs to be seen, not just as brick and mortar, not just as a shelter, but as a critical component in making the dreadful conditions in our neighborhoods endurable. It's an essential road to self-respect, to dignity, to hope.

All of this is kind of a new awareness that's come upon Americans. More and more in this country is there a rising up of programs to link housing and community services. There's more and more an awareness that this deeply troubled nation must begin

with making decent housing available. But that this must be seen, not just as brick and mortar but as an indispensable component to making our cities livable for poor people.

And expressing a personal view which I hold very strongly, I don't think this civilization can survive with the continuing deterioration of living conditions and the lives of the poor in this country. It's unprecedented in the industrialized democratic world. These conditions don't exist to this same extent in cities of Europe or the United Kingdom or Japan, and they are getting steadily worse. We should see this problem in this light. We should see it as a very, very top priority in the future of this country.

David, I turn it back to you.

Mr. MAXWELL. Well, I think you understand now why we were inspired to work so hard, Mr. Chairman, on this report. I know you have some questions. I'd just make a few other remarks and then stop.

It is extraordinarily gratifying to be asked to testify at this hearing. So many task forces meet and they put out good reports and then the report gets put on the shelf and it gathers dust and nobody ever looks at it again.

I can't tell you how much it means to know that this report is still a living document and that what we've recommended here is important to policymakers.

I came prepared to discuss the entire report, if you wish, Mr. Chairman. I gather you want to concentrate on the HOME program. But it is a balanced set of recommendations covering income support and tax policy and public housing and a number of the other critical issues—rural housing—in the housing field.

I'd like, in concluding my remarks, before your questions, to refer to a Congressional Research Service report which I found thoughtful. It's dated September 29, 1992, and the subject is the policy options in housing. On pages 26 to 28 of that report, the writers set forth four possible options.

One would be for a retrenchment in housing and community development programs, which I think we would all agree is unthinkable. The second is to maintain what we have. In the view of the task force, since the recommendations we made have not been funded, even at the modest levels that we recommended, we would consider that inadequate.

Third, the question of in-place revitalization, as they call it. This is what Jim has referred to and what a lot of the wonderful work of Enterprise Foundation, on whose board I have the privilege to serve, has done. And maybe Jim will talk a little bit about the Sandtown effort in this hearing.

But in-place revitalization is a necessity. While the concept of Enterprise Zones may be a good one, really, the questions are not solely economic. They're social as well. A program for Enterprise Zones must have as its primary objective the improvement of the lot of those living there, the increase in jobs, the improvement in housing, and other community services.

I would hope that the Congress would make sure that it isn't targeted on giving investors a big boost and then an ability to walk away, possibly, after the tax benefits are realized, but to really create something better in these inner-city neighborhoods.

And the fourth option is what they call in this Congressional Research report, an open economic policy. And this is also necessary. And by this, what they're talking about is the ability of people to move out of some of these neighborhoods to improve their lot, which is a traditional American effort.

This requires enforcement of fair housing rules. It requires access to jobs outside the inner city and programs like the one in the 1992 Act, Moving to Opportunity, which I think builds on the Chicago experience and the Gautreaux case. The Gautreaux case is very important to me personally because when I was general counsel of HUD 20 years ago, we were working on the side of the plaintiffs in that case, and there have been some good results from that.

Removal of restrictions and impediments to affordable housing near new cities in the suburbs, cities like Tyson's Corner, is an example. People who work in those cities have no place to live near their work.

All of these are important subjects—not that the Federal Government can have a program for each one of these things—but these are important subjects that can be addressed on the local level, and that's what makes the concept of HOME and of course the concept of community development block grants so terribly important, because then you are supporting programs that local people understand.

Just to reiterate what Jim said, we think that the statutory framework for HOME is a good one. It is very important for the new team at HUD to sweep away the thicket of regulations and obstacles that prevented this program from getting off the ground as much as it should have.

We think that it should be integrated into the low-income housing tax credit, which we hope will be made permanent this year by the Congress. And we think it can work. We still, or at least speaking again for myself, and for Jim, we strongly support implementation of HOME in line with the task force recommendations.

Mr. ROUSE. A word on the important role of the nonprofit.

Senator SARBANES. Jim, if I could interrupt for just a minute.

Senator Boxer has to preside over the Senate at 11:00, and so she's going to have to leave. But I think if we could yield to her just for a moment or two to put a couple of questions before she goes, she's a new and very strong addition to this committee and she has a very keen interest in this field. I'd like to have her put a couple of questions before she has to leave, and then we'll finish out the rest of the testimony.

OPENING COMMENTS OF SENATOR BARBARA BOXER

Senator BOXER. Thank you so much, Mr. Chairman. There may not even be time for me to hear the answers, but as long as we can get the answers, either in writing or at this hearing, I would be very pleased because I do think that we've got to do more. You gentlemen pointed it out. The home is such an important thing to people, to stability, to family. It's really a foundation, along with education. These are the basics.

So I am concerned that only 4 percent of HOME funds have been committed by participating jurisdictions, and only two percent have been expended. I think you alluded, Mr. Maxwell, to some ways we

could fix that; namely, working more with the low-income tax credit, and I hope maybe with nonprofits. But if there were three or four things that we needed to do to boost this program and make it really functional, what would those be?

We were talking to the Los Angeles housing officials and I'm told that the HOME matching requirements are difficult for them because they're cash-strapped.

I understand the importance of matching funds. I think it does commit people to things. But I am wondering if we can still cement these relationships without it. So if you could tell us how we can get this program off the ground, more off the ground.

Mr. ROUSE. I think it's infuriating and inexcusable that so little money has reached the people and the projects. I think there's no one who doesn't feel as you do, a sense of outrage that this is true. But I think the demon is overregulation. It's just beyond belief. I think if you heard an explanation of the HOME program made by somebody to a city on what they have to do, you would be dumbfounded. I've been through an hour's explanation of that and by the end of it, I could not possibly have administered the program.

Senator BOXER. Do you think it's overregulation by the cities, as opposed to—or by HUD?

Mr. ROUSE. No, it's overregulated by HUD.

Senator BOXER. By HUD.

Mr. ROUSE. But the cities, in response to HUD, are afraid that they're going to make a mistake and therefore, suffer from HUD, that the cities then overregulate in order to deal with what they see as the monster of HUD regulation.

As to the match, which really wasn't a match. It's about one-quarter to three-quarters. This was debated for a long, long time in the task force. But it was felt that it was very right for the localities to put some money into this, to have a stake in it, to be there in order that they're protecting their own money, that they realize the importance of the cause that's being served and that they be a partner in it.

I have to say, and this is without the knowledge of a mayor or local government, that it's possible to do it. All kinds of ways were proposed in the task force report for the cities and States to meet this. They could do it through tax abatement. They could do it through contribution of local private funds. There are roads to that match that are not as severe as just coming out of the city's budget.

Senator BOXER. They could use their CDBG funds, if we got the funds to them.

Mr. MAXWELL. Excuse me, Jim, but this part of the task force—we proposed a level of $3 billion of funding per year and we proposed that $1.5 billion of that be matched. And as Jim said, the whole purpose of this was to generate more funds coming into housing. The match can come from tax revenues, private charitable contributions, State housing agency reserves, local tax abatements, land donations, there are all kinds of sources that an imaginative local——

Senator BOXER. Yes. Well, thank you very much. Mr. Chairman I'm going to go. Sitting here listening to these fine people, we're in a credit crunch, on one hand, and now we're in a HUD crunch. I think we've got to end that. So thank you for the chance to partici-

pate. I wish that I wasn't given this assignment, but, as you well know, one does not dare refuse to sit and preside over the Senate when one is asked. Is that correct?

Senator SARBANES. Even if the Senate is only in a quorum call, correct.

Senator BOXER. Whatever it is, I've got to do it.

Senator SARBANES. Can I make the observation that part of the thinking in the match was that it was, in a sense, a deal, that you'd get more discretion if you put in some of your own money because the assumption is you'd be more concerned to monitor and carry the program through.

One problem is if we start waiving the match and it's all Federal money, it's going to be very difficult not to get more and more Federal definition of what's to be done with that money.

Mr. ROUSE. Absolutely.

Senator SARBANES. So that was part of the arrangement that was struck, and I thought a pretty good part of it. And of course, the other thing is it does give you 25 or 30 percent more resources than would otherwise be available.

We changed the law last year for things like sweat equity and things of that sort, can also now qualify as a contribution. So you can get the local involvement in a number of different ways.

Senator BOXER. Thank you, Mr. Chairman. That's good.

Senator SARBANES. Jim, why don't you go on?

Mr. ROUSE. I won't take but a couple of minutes. I think we should hear whatever questions you may have. But I did want to emphasize this nonprofit factor because at the time of the task force meeting, the nonprofit was looked upon as a very unpredictable, weak possibility for doing anything about housing.

As a matter of fact, there was a strong point of view on the task force that it shouldn't even be counted in the picture because that was the status of nonprofits back then. There were only a few hundred in the country. It was growing. But it wasn't seen as a resource at all.

But the nonprofit was seen by others as a resource and an important one. It was therefore strongly endorsed. As a matter of fact, for the first time in the history of the country, the nonprofit kind of became institutionalized by calling for a 15-percent set-aside.

The nonprofit has proven to be, even more than we could have expected of it. There's now throughout the country this increasing rising up of nonprofit groups as providing a local monitoring, a local initiative, a local power.

A good illustration is New York City, where, when we tried to go into New York City back 6 or 7 years ago, there was almost no way that we could become effective. But we did go into New York armed with the tax credit. We went into New York. The city didn't want to deal with nonprofits because they didn't regard them as reliable. So they chose us and LISK to be the recipients. So they had 53,000 abandoned dwelling units in New York and they began turning them over to LISK and Enterprise in a joint effort.

We now work with 50 nonprofit neighborhood groups in New York City. I've done over 3,000 units with those groups. We haven't had a default of any kind. This means there's a local group that cares about that project and those people. That is, managing it,

mentoring it, supporting it, tying in human services with the lives of the residents. It's a tremendous new capacity in this country. It needs to be recognized and honored as an important new force.

Mr. MAXWELL. Could I just add, Mr. Chairman, while Jim is looking over his notes, and emphasize that this really was discussed a great deal at the task force.

We did not, and I do not now, feel that there is any tension, or should be any tension between the nonprofit developers of housing and for-profit developers or other developers. They can work very productively together. A nonprofit developer has to have a builder. So we think that so much good is being done by these nonprofits with respect to housing in their communities, that they absolutely must be encouraged. The set-aside is quite justified in those terms.

Mr. ROUSE. Neither the for-profit, nor the nonprofits alone can provide housing for low-income people. You get to a point—the last figure I have is there are over 16 million families in the United States with incomes under $10,000 a year. There are probably more than that today. But that, on average, those families pay more than 50 percent of their income for housing. This doesn't leave enough to operate on. People with incomes below $7,000 a year pay 70 percent of their income for housing.

There must be subsidy. You simply cannot reach the very poor without subsidy, subsidy in the form of writing down of capital costs or in some form of writing down the rent or the monthly payment—vouchers, section 8, some such form.

One last word that I can't escape the opportunity to use and that is to say a word about the Baltimore Sandtown project. I do believe that we are beginning to demonstrate that the conditions that exist in our cities can be corrected and that it is frugal to do it.

I believe we will be able to show, we've now completed the reports and the conceptualization of a new neighborhood in which all of life is transformed—the schools, the health care, the skill training, job placement, drug prevention, day care, child care—all are being transformed at the same time. All are being made to work with top-flight professional help, David Hornbeck in education, Johns Hopkins School of Public Health in health.

Now those programs that are proposed, all this is coming, working with the people of the neighborhood and the city agencies. Now in the last 6 weeks, those programs have been carried to the people of the neighborhood by residents of the neighborhood, carried to the agencies of the city, all of the department heads with remarkable positive response and no dissent.

We really have had unanimous support for what we are proposing. I think over the next 3 years, we will be able to demonstrate that these kinds of neighborhoods can be transformed and that it costs less to transform them than to continue to pay the outrageous cost of these deteriorated neighborhoods. The last word on that is what we sense as the new direction.

The administration is leading this, but Henry Cisneros, a remarkable man at the head of HUD, is charting new directions that will be important. Enhanced Enterprise Zones—I've never been an Enterprise Zone advocate, but what the administration is now speaking of which would really tie together housing and health and education support.

Community development banks, a team approach on the part of the Federal agencies. These are all things that hold out great hope. This enormously bright, experienced, and resourceful man is going to find a new way, a new urban agenda.

It's very important that he be supported.

I will turn it back to you, Mr. Chairman.

Senator SARBANES. Well, gentlemen, thank you very much. We very much appreciate your presentation and we also appreciate the very comprehensive and careful statement that you've submitted, along with the back-up material to it. That will all be included in the record.

This is obviously going to be a continuing effort by this subcommittee, so we hope to be able to continue to call on you for the basis of your thinking and evaluations.

I was struck in the statement because I think it's important to keep the dimensions of the problem before the country because, as you point out in the statement, we need to commit the resources in order to try to do the job. I do think that you made an overwhelmingly persuasive case at the time that we addressed creating the statutory framework, and the Congress responded on that score and then responded further in 1992, when we made the modifications to help ease the program.

Would you agree with me that, it's my perception at least that the statutory framework now is—well, it's never perfect, but it is a workable statutory framework now, that the prime emphasis is not changing the statute, although we may need to do some of that, but the prime emphasis is providing the resources and making sure that these programs are implemented within the statutory framework that has now been established. Or do you think the focus needs to be back in this arena in terms of new legislation?

Mr. ROUSE. I think the focus needs to be primarily on HUD. And I think there is a framework to move ahead. I think that the Secretary of HUD needs some discretionary authority which he does not now have. I think it's very important that the Secretary of HUD be able to allocate some funds in relationship to opportunities, special situations as he comes upon them, and that it would be an important addition to see that there is a discretionary fund which can enable the Secretary to advance programs that might otherwise be stymied.

Mr. MAXWELL. I would agree with that, Mr. Chairman.

Senator SARBANES. I was struck by your observations—this was toward the end of your statement—that the difficulty with getting the HOME program up and going, about HUD's partnership with local governments had deteriorated to outright hostility in certain cases. From well-intended and necessary efforts to reform the practices from the Pierce years that favored some fraudulent developers, HUD had clamped down on the entire Federal housing subsidy and finance system. All seeking HUD assistance were subjected to suspicion, red tape, and stonewalling.

At one point, proposed regulations governing access to HUD would have required elected mayors and governors seeking HUD assistance for their communities to register as lobbyists.

Actually, I worked on getting an amendment into the 1992 act to make clear that—you had public officials chosen by their com-

munities who were coming to call on HUD with absolutely no private interest whatever involved, and HUD was going to subject them to the same kind of rules that governed private interests in terms of being lobbyists. It put a real damper or freeze on these public officials and their involvement in this program.

Now I realize when they went in, they had a mess to clean up. But I do think, as you observe, that what they did is they just froze everything. We obviously have to unfreeze that now. I think the new Secretary is very determined to try to do that.

I want to ask two questions, one on the match and one on the targeting, because there are lots of people around wanting to change them.

The 1992 act provides some waiver authority in communities whose fiscal situation is so desperate, that it's unreasonable to expect them to have a match. But there's a movement somewhat broader than that to drop the match.

I must tell you, my own view on that is, if communities aren't prepared to put the match, then maybe the monies ought to go to those communities that are prepared to do so, who either, through extra sacrifice on their own part, or through some creative and innovative thinking, are able to find ways to accomplish the match and therefore reflect a real commitment on their part.

That may also work because I think this program needs to demonstrate some successes. If a community is involved and prepared to make a contribution, it's more likely, I think, reasonably, that they'll carry through in achieving successes. And perhaps the greatest impetus that can come to really support this program is to be able to point to the Sandtowns around the country in a fair number of places and say, well, look what this community was able to do. They had difficult financial circumstances. They had a lot of the problems that you have, but they put their act together and drew broadly on the community both profit and nonprofit sectors, and this is what they've accomplished.

Let me ask you about the match. What's your view specifically on the match requirement?

Mr. MAXWELL. Mr. Chairman, your remarks reflect what was recommended in the task force report. We support the concept of a match. The match ought to be able to be made through any number of creative ways by the local community.

We believe that a community that is really dedicated to making the HOME program work will be able to find the resources for a reasonable match. And that the waiver for communities that are really in desperate straits, is an appropriate, but limited, factor in the picture. So we would reaffirm what the task force report said on the subject of the match.

Mr. ROUSE. I think you stated it very well. Your reasoning goes to the whole basis for it. I think that there will be better programs in the country, some requirement for match with a lot of choice as to how they meet the match. But the fact that there's a struggle in this at the local level is an important part of the struggle.

Mr. MAXWELL. I also think that what you said earlier, Mr. Chairman, about the fact that where there's a match, the match is a trade-off for local flexibility in implementation of the program. If there's no match, the inevitable trend will be for the Federal Gov-

ernment to want to exert more and more authority, since it's their money, and only their money that's involved in the projects. I thought that was a very strong point that you made.

Senator SARBANES. I think that the match requirement is low enough, that the State and local people, if the HOME program works the way it's supposed to work, are getting a very significant discretion and control over the direction of the program for a really minor contribution on the resources side. Although, of course, one of our hopes, I guess, is that this program will call forth from the State and local people more than the required match.

In other words, that it will lead them to put housing and, perhaps more broadly, the strategies that Jim was talking about, that go over into education and police and health and sanitation, so that they really end up making—the match almost becomes irrelevant because they make a contribution larger than the match because they perceive, here's a real opportunity to take a whole neighborhood and transform it.

Mr. MAXWELL. What one sees in successful production of housing through the low-income tax credit is a number of resources coming from all different areas, from the private sector, from cities, from States.

Jim alluded to the New York City experience, which has been very good. And in that case, you've got the city. You've got the State. You've got local businesses. You've got the Enterprise Foundation and LISC. All of these elements are banding together to pool resources to produce housing. So the match really keeps the State and local government in the picture and they can do a lot more, as you've just said, Mr. Chairman, going beyond just getting some Federal money.

Senator SARBANES. I have one more question, then I'll yield to Senator Moseley-Braun. We're pleased she's here with us this morning.

I have another sort of bias, I guess, and let me ask you about this because it's a tricky question. I have an inclination toward trying to find at least a few places in the country where we can really make this thing work and hold them up as an example because one of the problems, I think, is they say, well, yes, you're doing good things and so forth, but it's a drop in the bucket. You've created this little, in a sense, oasis here, but it's surrounded in this area by vast problems.

It would be nice if you could say, you know, the people of the city of so and so who are facing these kinds of problems took these programs and a lot of other programs and they really—you can go there now and this is the before and this is the after.

Can that work or is that an idle dream? Are there any places that are candidates for that, or seem to be able to do that, where you could really then turn to other communities and say, well, now, look, if you really buckle down, they didn't have an easy job. You can't take some essentially wealthy and solid city and do it, but you'd have to take it somewhere where they had at least the range of the problems. Are there places that are candidates for that or are we hoping for too much if we try to, in effect, create models, so to speak, or examples?

Mr. ROUSE. Let me say a word about what's happening in Baltimore. Of course, the Sandtown project has been fully supported by Kurt Schmoke, not only supported, but also with directions to the city agencies to learn from this in order that the change in the basic systems of education and health and human resources and so forth, can be made effective through the agencies of the city.

We were asked to attend a meeting in city hall 2 weeks ago, in which we received a little paper in advance and we talked. They wanted to address to us their feeling about what could be done in the city.

They were talking such fresh language as each department in the city has got to learn to give up its sovereignty. We've got to learn to look at who we're serving. We've got to think in terms of the people being served by city government as customers, that we've got to be prepared to make radical change in the city government. They even used phrases like we've got to realize that we're reinventing city government.

But this meeting went on for a couple of hours of how the city can do a more effective job of combining all of its services in this Sandtown neighborhood to demonstrate that these conditions can be changed.

It was an extraordinary meeting and a very hopeful one. I think you're going to see that the city of Baltimore will have provided real leadership to the country in demonstrating just what you're talking about.

Senator SARBANES. But the problem you have is they say, well, the Sandtown neighborhood is going up, but this neighborhood over here is not going up.

Let me ask you, you undertook a comprehensive, city-wide undertaking in Chattanooga, did you not, to Enterprise people at one point? Is that correct?

Mr. ROUSE. Not comprehensive in the same sense. What we did in Chattanooga was urge the city to commit itself to see that all housing occupied by low-income people was made fit and affordable over a fixed term of years. We proposed 10 years. They pretty well took on that commitment.

Senator SARBANES. And how's that going?

Mr. ROUSE. It's going very well. It's probably not going to make it in 10 years, but it's going at the rate of 500 to 1,000 houses a year in a city of 180,000 people, which is a hell of a job.

Senator SARBANES. David.

Mr. MAXWELL. Mr. Chairman, I think, from the Federal level, that the best thing that could be done to encourage a community like Sandtown or any other that wants to address the whole range of problems, would be to sweep away the categorical nature of the Federal help that's going already into those communities, so that it can be used as flexibly as possible.

I understand that President Carter has tried to do this in Atlanta, and his efforts there to get waivers from different Federal departments so that they don't insist on their particular rules for the expenditure of the money, and it can be used more flexibly at the local level.

Senator SARBANES. Well, there's tremendous pressure on in Atlanta, I think, to produce. As the host of the 1996 Olympics, that's

a tremendous lever, it seems to me, to use on the private community and the public officials there to really just kind of lift their whole city up to a new level and as a demonstration of what can be done if you really put your mind to it.

We've got to turn around this sense that the problem is too big. We do a little bit here, but then we've got another area over there that's just falling to pieces, so we go do that other area over there and then this area over here falls to pieces. There's got to be a comprehensive movement, in a sense, on all fronts. If we can once get that working in a few places, it seems to me, at least, where you can show some success, then the lesson is learned across the country, well, it can be done.

Now what is it that they did—in fact, we're going to do some hearings in here in a week or two, I forget the date, on public housing. One of the things that we're going to try to develop in those hearings is why is it there's some public housing projects in the country that work very well?

You go to see them, they're well maintained. The people are——

Mr. ROUSE. The reason is management.

Senator SARBANES. All right. You've given us the answer before we do the hearing.

[Laughter.]

But we're going to probe that because, obviously, the system itself is not necessarily inherently defective because you've got some places where the system works very well and other places where it works abysmally. Now why? And we just got the answer.

Mr. ROUSE. I don't think there's any question about it. The distinguishing difference is the quality of management in those different cities.

If you had middle-income housing, housing for the wealthy, and it was managed in such a way that if somebody dropped garbage in the hallway by the elevators and nobody picked it up, and that kind of defiling of the apartments went on, pretty soon it would be empty. People wouldn't pay the rents. The wouldn't come there any more.

This is what happens in public housing. If the bad apples, so to speak, are allowed to contaminate the whole barrel, then the whole barrel gets contaminated. But there are housing authorities which enforce reasonable standards, reasonable disciplines. The tenants respond to it and they want that kind of housing and they're proud of it.

It's inexcusable, the bad management in public housing that gives it the bad reputation.

Senator SARBANES. Senator Moseley-Braun.

OPENING COMMENTS BY SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman. Thank you for this opportunity. Mr. Rouse, Mr. Maxwell, thank you.

I had a question, but your final statement, Mr. Rouse, reminded me. I had personally—in my own life, I dropped out of school at one point and went and worked for a housing authority. I was convinced, after working there for about a year, that the management was sufficiently bad, that I really ought to get back to college be-

cause there had to be another way to live and another way to work. So I am very, very much aware of what you speak. It certainly has played a part in my life.

But to get to the issue, I'm going to read part of my statement and then submit the rest of it for the record. And then I would like to ask you a couple of questions.

As a new member of this subcommittee, it is a particularly important issue for me. I commend the committee for its work on the Cranston-Gonzalez National Affordable Housing Act of 1990, the most meaningful housing legislation in over a decade and the vehicle for this program.

I believe when this committee recognized the need to make the necessary changes last year to give local jurisdictions flexibility in implementing HOME funding, that this was a step in the right direction.

I understand that these changes helped to increase the pace of the HOME program activity. But I also recognize that in order to facilitate more spending of HOME funds, it is our responsibility to consider some fine-tuning of the program.

With that, Mr. Chairman, who is now out of the room, but I would like to submit the rest of my written statement for the record.

And to start off with a contextual question regarding housing conditions: Your first study was in 1987, and that's what gave rise to the 1990 legislation. My question is whether you have done any further studies or if you can comment generally on whether or not housing conditions in this country have changed significantly since the task force report was issued. Have there been improvements, set-backs? Overall, how would you assess our current situation?

Mr. ROUSE. The Enterprise Foundation made just the examination you're talking about of the original Decent Place to Live report of the task force of 1987–88, and issued a new report called "A Decent Place To Live, Revisited." I have a copy here. This is it [indicating].

Senator MOSELEY-BRAUN. Would you submit a copy of that for the committee?

Mr. ROUSE. I sure will.

Senator MOSELEY-BRAUN. Thank you.

Mr. ROUSE. It's been a study of deterioration. Almost every condition that was marked in the task force report in 1988 is worse today than it was then. There are more homeless. There are more people in poverty. There's a bigger gap between the needs of people in poverty and the housing that's available. More units would be needed to meet that gap. It's been steadily downhill. And the important part of it is that it's been steadily downhill for 20 years ahead of that. It is headed steadily downhill today.

I remember—this doesn't directly relate to housing, but I think all of these things relate to the condition of the American city at the bottom. I heard Lee Iaccocca give a talk to 50 people in Los Angeles. He was talking about education. He said, we build a plant. It costs $2 billion in Detroit. We look to the five public high schools in the area for supplying us with entry-level workers.

We found there was a 55-percent dropout rate. The result is that the number of functional illiterates who we have had to employ to

operate that plant has been so great, that in many machines, we've had to scratch the English language and substitute the international sign language.

He turned to the crowd and he said, and I want to tell you, if we don't change these conditions in the American city, we are going right down the chute. And that's a fair statement of where we are in America today.

So that I think you find no encouragement whatsoever in housing conditions today as against 1988, when the report was written.

Senator MOSELEY-BRAUN. That has been kind of the thumbnail observation. I look forward to reading the report.

Looking at possible solutions, possible approaches, rather, to the whole issue of housing development, much has been made of the experiment in my home community in Illinois, Southshore, and the activities of the Southshore Bank in terms of housing development.

When I say much has been made, primarily, the focus has been on the banking model that Southshore Bank put together.

But for those of us who grew up with that activity, one of the things that's very clear is that the Southshore Bank experiment was a function of the coordination of effort between several groups. The bank was a part of it, but the neighborhood institute, the technical assistance that was provided, the other kinds of coordinating of government support, banking support, technical assistance for community activity and support, that it was the combination of those things that has made for the success of the Southshore Bank community development efforts.

So, I guess my question is, with regard to this program, to what extent have you experienced or been supportive or pushed the kind of coordinated efforts that will bring together the kinds of energy, synergy, really, that you can get when you have local government working with the community, working with the financial institutions, to create housing in the inner cities?

Mr. ROUSE. Well, we're having a very explicit experience with that. I mentioned this Sandtown neighborhood in Baltimore in which we're working. It's a neighborhood of 10,500 people, 72 square blocks, 5,000 dwelling units. Fifty percent of the people live in poverty. It's one of the centers of crime in the city. There is no full-time physician practicing in the area. The emergency room is the family doctor.

It is a truly bottom neighborhood. We're working in that neighborhood with the—I say we. The "we" is the city, the residents, Enterprise, working with the residents to identify what needs to happen to make that neighborhood work. We're working with top-flight professional assistants with the neighborhood people, with the city agencies, to transform every single dysfunctional system in that neighborhood.

The schools, and those proposals have now been completed. They've been made to the people. They've been made to the city agencies with great approval and are now being implemented. We will see a total transformation of the schools. We'll see a new health care system that will provide primary health care to every man, woman and child in that neighborhood, regardless of cost. We'll see skill training and job placement and drug prevention and safe streets. We think we will be able to demonstrate, one, it can

be done. Number two, that it will save money to do it. That's our purpose.

Mr. MAXWELL. Senator, in the task force report, the concept of the HOME program was precisely as you've stated it. The whole idea is to have the decisionmaking and the activity on the local level in a way where the Federal Government acts as the catalyst, if you will, or provides the sort of seed money, but all the different interests, the State, local government, the technical assistance and the banks and the private sector, are drawn in to address these problems.

I think it's fair to say that the feeling of the task force was that that's the only way that you're going to really achieve results and genuine change in these neighborhoods.

Senator MOSELEY-BRAUN. We just finished going, and I know the chairman certainly worked very hard on behalf of the President's economic package. Part of that would have provided for some Community Development Block Grant funds that could have helped provide that spark to which you refer. I think it's unfortunate that it fell prey to the political wars and that we have missed an important opportunity.

I am hopeful. I'm new here, but I am hopeful that in some way or another, we can revive some of those approaches because certainly, we need to provide the support from this level for those kinds of local initiatives.

One last question. This is kind of a huge question, in a way. But just to ask generally, if you had your wish list, Mr. Rouse and Mr. Maxwell, if you had your wish list of what you would have us do, have the Federal Government provide, the kind of support for housing development efforts for this program that you'd like to see, what would that wish list consist of? How would you describe what needs to be done on a national level to meet our housing needs?

Mr. ROUSE. Well, I think you've done pretty well with the act as it's now been reconstructed by the 1992 legislation.

My wish list for the Federal Government I think is in progress, which is a new HUD. That's the most important thing that could happen today. I think you have a brilliant man at the head of it, but he's got to have authority to act. He's got to have money. He's got a lot of money there that he can get out if they free it.

It's a big job. But I think as long as HUD is bottlenecked, either by itself or by Congress, which hopefully now is over, that you'll see tremendous progress in housing.

I think you've got to recognize that it does take something more than public, private initiative at the bottom that requires subsidy. There must be subsidy, either in the form of reducing the capital cost of housing or through some form of rental assistance, enabling people to rent housing that's decent to live in for very low-income individuals.

The Sandtown neighborhood, for example, 25 percent of the people there have incomes under $5,000 a year. There's no way that they can afford any kind of unsubsidized housing. There must be vouchers, section 8, substantial write-down of capital costs.

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

Senator Sarbanes. Thank you.

Mr. MAXWELL. Can I have my wish list?

Senator MOSELEY-BRAUN. Oh, absolutely.

Senator SARBANES. Yes, certainly. We don't want to deny you your wish list.

Mr. MAXWELL. I certainly back what Jim Rouse says. We think, with respect to the HOME program, that the statutory framework is in place and that, actually, more legislation on that score might be counterproductive because one of the great problems in this whole field is constant change of rules, change of programs, so that people at the local level don't know really what they're dealing with with respect to Federal support.

I would think that you don't really need a lot of legislation. You do need, as Jim put it, a new HUD and a HUD that really acts in a leadership way in the housing field and clears away the bramble of regulations that prevent these programs from working.

Another wish on my list would be to make the low-income housing tax credit permanent so that it doesn't keep getting held hostage every year or so. It's not operative at all right now because it expired last year. That is a very useful tool for providing housing for low-income people.

And third, I would hope that this country would, under the new administration and under the new Secretary of HUD, reorder priorities and really bring to the top of the list addressing the problems of the cities and educational problems, health problems, housing problems in our cities to improve that situation, which is, in the opinion of the task force, certainly, in my opinion, and as Jim has so eloquently stated it earlier, deplorable.

Senator MOSELEY-BRAUN. Thank you.

Senator SARBANES. Well, gentlemen, we thank you very much. As always, you've been extremely helpful to us, and we appreciate it and we especially appreciate the time and effort that obviously went into preparing this very comprehensive statement for the committee, and joining us today.

Thank you very much.

Mr. MAXWELL. Thank you, Mr. Chairman.

Mr. ROUSE. Thank you, Senator.

Mr. MAXWELL. Thank you, Senator.

Senator SARBANES. If the next panel would come forward now, we're going to turn to a group of Diane Voneida, Barry Zigas, Larry Swanson, and Trudy McFall.

The witnesses on this next panel represent jurisdictions and nonprofit developers that have been using the HOME program with some success.

We look forward to hearing about their experiences working with HOME in the field and welcome their perspectives on what needs to be done to sort of energize and move this program forward.

We have a good line-up of witnesses. Diane Voneida, the director of the Rockford, Illinois, community development department. She's been able to commit nearly all of the city's HOME funds. She's going to testify on behalf of a coalition of local government associations.

Barry Zigas, an old friend, president of the National Low Income Housing Coalition, who has worked with low-income housing residents, nonproviders around the country using the HOME program.

He'll share with us important research on the HOME program collected by the Low Income Housing Information Service.

Larry Swanson, director of housing development for ACTION Housing in Pittsburgh, developing housing with HOME funds as a nonprofit community housing development organization, a CHDO.

Pittsburgh has been the number-one jurisdiction in the country for committing HOME funds. So we want to hear about that.

And finally, Maryland's own Trudy McFall, who is testifying on behalf of both the State and the National Council of State Housing Finance Agencies.

As director of the Maryland Community Development Administration for over a decade, Trudy McFall has demonstrated great skill in administering both the traditional housing finance agency programs and a wide array of other programs which the State has placed in her responsibility.

During the recent past, in which we witnessed the decline in the Federal commitment to affordable housing, I think it's fair to say that Trudy McFall provided that extra spark that was so critical to a heightened State focus on affordable housing. So we're very pleased to have you all here.

Now I understand that Diane Voneida has some time constraints; actually, you're going to be seeing the Secretary shortly. And we want you to do that. Take the message to him that you're bringing to us this morning. So why don't you go ahead and then—we'll take you first, and if you feel you have to leave, I think you could be excused and go on.

Senator MOSELEY-BRAUN. Mr. Chairman?

Senator SARBANES. Yes.

Senator MOSELEY-BRAUN. Before Ms. Voneida starts, since you got to say nice things about Ms. McFall——

Senator SARBANES. Yes. I thought I said nice things about everybody.

Senator MOSELEY-BRAUN. Well, you did. You did.

[Laughter.]

But Ms. Voneida is from my State.

Senator SARBANES. I understand that.

Senator MOSELEY-BRAUN. From Rockford. She has done such a terrific job there. Rockford is right now No. 2 in the Nation in HOME program commitments for 1992, because of her good work. She's worked to bring together the community and Government and the private sector on behalf of housing development and has done just a yeoman's job in Rockford.

I'm very, very proud that she's here today and proud to have her from my home State of Illinois. I understand you know HUD regs better than anybody over there, so when you see the Secretary, you can give him our regards and tell him that we are all going to be working together on behalf of this effort.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you very much.

STATEMENT OF DIANE VONEIDA, DIRECTOR, COMMUNITY DEVELOPMENT DEPARTMENT—ROCKFORD, IL, NATIONAL ASSOCIATION OF COUNTIES, NATIONAL LEAGUE OF CITIES, U.S. CONFERENCE OF MAYORS, ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES, NATIONAL ASSOCIATION FOR COUNTY COMMUNITY AND ECONOMIC DEVELOPMENT, ROCKFORD, IL

Ms. VONEIDA. Thank you, Senator. It's a pleasure to have you for my Senator. I can tell you that, in my adopted State of Illinois, I've trained a lot of people in the HOME regulations, but I don't profess to know them.

[Laughter.]

Very well. As you mentioned, I am Diane Voneida, director of the Community Development Department for the city of Rockford, Illinois and past president of the National Community Development Association.

NCDA is a membership organization representing more than 500 jurisdictions, local jurisdictions that administer federally supported community development housing and human services programs.

Since 1968, NCDA has been at the forefront in securing effective and responsive housing and community development programs for local governments.

I'm also pleased to have the opportunity to testify before the subcommittee not only on behalf of NCDA, but also other national organizations representing elected and appointed local government officials.

These include the U.S. Conference of Mayors, the National League of Cities, the National Association of Counties, the National Association for County, Community and Economic Development, and the Association of Local Housing Finance Agencies. The issue is the importance of HOME investment partnership, the program addressing the critical affordable housing needs in our communities that these organizations represent.

The organizations that I have mentioned above represent hundreds of communities that strongly supported the enactment of the Cranston-Gonzalez National Affordable Housing Act of 1990, which brought us the HOME program.

After a decade of Federal disinvestment in housing and community development, we were encouraged by the additional resources and opportunities that the HOME program afforded local governments and low-income residents in our communities.

Local governments have continued to support the HOME program strongly since its enactment 2½ years ago, and are committed to making the program reach its potential for becoming a truly flexible and effective Federal housing block grant program.

Since its beginning, HOME has been labelled as unworkable by both supporters and critics because of its complicated and cumbersome requirements. In fact, the program, mired by legislative and regulatory contradictions, did have a difficult and slow beginning.

The Housing and Community Development Act of 1992, subsequently addressed a number of programmatic inconsistencies in the original legislation, providing States and local governments with much needed flexibility in many areas.

While I do agree that some elements of the program continue to be difficult and extremely time-consuming, HOME is far from unworkable. The question is whether States and local governments and private and nonprofit developers can significantly increase their capacity, as well as commit valuable financial and staff resources, to take advantage of HOME's various program options.

As the program stands now, HOME permits a wide range of activities, in theory. In reality, the program is less than truly flexible and less than responsive to diverse local housing conditions and market needs.

We have enclosed with our testimony a detailed listing of statutory and regulatory recommendations that are agreed upon by all the organizations that I'm speaking for here today. We believe that the adoption of these recommendations will greatly enhance the program, both in operation and implementation, and fulfill its potential to become a truly flexible and responsive housing block grant.

Mr. Chairman, Senator Moseley-Braun, I would like briefly to share with you my experience in Rockford, as we have worked diligently to get HOME up and running.

According to HUD data, Rockford, Illinois, is one of the top performers in the county. We are second in terms of obligation and seventh in terms of actual expenditures; 50 percent of our HOME funds have been expended now as we speak and we're closing on three more units this week. So I suspect it will be even higher than that when I get home. I have great staff.

[Laughter.]

We have essentially committed, as I mentioned, all of our fiscal year 1992 funds. We're looking forward to beginning to commit our fiscal year 1993 allocations, and as soon as HUD gives us our letter of credit amendment, we will close on an eight-plex with our CHDO and expend 100 percent of our CHDO 15-percent set-aside of the 1993 money. Why have we been successful in expending these funds when many communities continue to struggle to get their programs off the ground?

I think we essentially followed three simple rules. First, we stayed abreast of the program in its formative stages of legislative and regulatory development. I had the pleasure of serving with the U.S. Conference of Mayors on the task force that Mr. Rouse worked on in 1987. Second, we did not attempt to reinvent the wheel, but, rather, we took advantage of existing local programs that can be implemented through HOME with minor modifications; and third, in order to adequately address our rental housing need, we utilized the Community Development Block Grant Program, which provides much more flexibility in meeting our community's rental housing needs than the HOME program.

Let me go back through those.

First, by closely tracking the HOME program's developments and taking advantage of every opportunity for training, my staff and I were able to have program designs, financing mechanisms, applications, and legal documents essentially ready to go when the HOME notice of fund availability was issued last year.

HUD, in conjunction with NCDA and other national organizations, did an excellent job of keeping my colleagues across the coun-

try and me informed about legislative and regulatory developments affecting HOME. Considering the number of HUD regulations, notices, memoranda, distributed over the past 2 years, it has not been easy to stay current on the numerous HOME changes and clarifications.

Since the beginning of HOME, HUD has published or issued nearly 70 HOME-related documents, many with significant policy implications for program operations. Certainly, HUD is not entirely at fault for overregulating the program. Many of the regulations were driven by the complexities of the legislation itself.

In order to further enhance and develop a strong network of housing providers, I strongly believe that extensive training and technical assistance must be provided to States and local governments, as well as to nonprofit developers, on a continuous basis. HUD's Office of Affordable Housing Programs, to its credit, has made great efforts to get the technical assistance out to communities.

Currently, NCDA, in conjunction with a number of national, State and local government organizations, and with the support of HUD, is working to create a HOME technical training organization. This entity will coordinate and monitor training and technical assistance efforts for States and local governments to further expedite the use of HOME funds.

Just to illustrate for the members of this committee the tight timeframe State and local administrators of HOME, as well as HUD staff, have been working under to implement the HOME program, I have listed in the testimony the sequence of major legislative and regulatory events since the passage of the act in 1990.

The proposed HOME regulations were published very soon thereafter in 1991, interim regulations at the end of 1991, with a notice of fund availability in early January 1992. Many of us received HOME funds as early as April. Most of us probably mid-year. We received ours in mid-May 1992.

There were major changes that were enacted through this committee and the House and Senate through the Housing and Community Development Act of 1992, which meant that we significantly modified a lot of our programs that we had been working on. Then we went through another set of interim regulations in late December 1992, and we currently have two rules pending.

As you can see, there's been a lot of activity. Much has taken place over 2½ years. An enormous amount of local staff time and personal commitment was required to stay abreast of all these issuances and developments at the Federal level.

I might add that the Community Development Block Grant program, which is now one of the most successful and, unfortunately, most recently one of the most misrepresented, Federal programs, at least at the Federal level, also had a difficult beginning nearly 20 years ago.

And I'd like to add to our testimony that we submitted on the HOME program, information on the Community Development Block Grant program, which I hope the Senators will take time to read.

Senator SARBANES. That will certainly be included in the record.

Ms. VONEIDA. Other less complicated HUD programs, such as the rental rehab program, also experienced difficulties at the outset. The learning curve, I feel, is slowly but surely catching up with the high expectations of the authors of the HOME program.

The second rule followed by the city was not to reinvent the wheel in designing our local HOME program. Rockford's Community Development Department has administered two successful housing programs funded through the Community Development Block Grant program—a first-time homebuyer program and an existing homeowner program.

While we had to modify the existing CDBG-funded program to comply with new HOME requirements, in particular the resale restrictions for first-time homebuyers, the restructuring of existing programs turned out to be more effective than developing a program from scratch. They're also the two easiest programs to administer in the HOME program, and that went a long way toward our ability to expend the dollars.

The final approach we adopted to expedite the expenditure of our housing resources was to use Community Development Block Grant money for rental housing. Due to the overly complicated and prescriptive HOME rental housing requirements, the city could not interest the private sector in partnership efforts in developing rental housing.

Another disincentive for Rockford is HOME's time-consuming and staff-intensive annual on-site monitoring requirements for rental housing. Based on the lack of administrative support to administer HOME rental activity and the inflexibility of rental requirements, my department made a conscious decision to shift rental housing assistance to Community Development Block Grant, which provides greater flexibility for my staff, as well as private developers and lenders.

Mr. Chairman, Senator Moseley-Braun, developing rental housing for low-income persons is extremely complex and usually requires multiple funding sources. By adding duplicative, contradictory and unnecessary income and rent requirements, the HOME program makes financing such projects a nightmare for those who must implement and keep track of the program.

Our concern is that if we do not work together to make some fundamental changes to the HOME rental provisions and regulations, decisions about types of housing activities to be pursued at the local level will be driven more by how to avoid complex Federal requirements rather than on local housing needs.

To address this problem, we propose that the project- and program-wide targeting requirements contained in the current law be replaced with a single requirement consistent with ownership requirements that permit 100 percent of the funds to be spent on rental housing activities which benefit those at 80 percent of median income or less. In addition, the current law's rent restrictions should be replaced with a single standard, permitting rents up to the fair market rents.

Another important issue for the future success of HOME is the non-Federal matching requirements.

Senator Sarbanes, I'm going to have to disagree with your position on this and perhaps there can be some direct questions later.

I believe that these continue to be the most frequently cited reasons why jurisdictions may be unable and unwilling to participate in the HOME program in the future. While we recognize the importance of promoting public, private and nonprofit partnerships in producing affordable housing, and increasing the net resources designated for such activities, we find the current match structure to be a major obstacle to full and effective participation by all communities.

The members of local government organizations strongly support retaining the objective of local commitment and accountability. However, we also support maximum participation in the program in order to strengthen political and neighborhood support for HOME in our communities. In order to ensure maximum participation for communities, as well as increased housing assistance for low-income persons, we must modify the existing matching requirements.

For these reasons, we recommend replacing the current two-tiered match of 30 percent for new construction and 25 percent for all other activities, with a leveraged requirement similar to that which was used in the rental rehab and HoDAG programs. The leveraged requirement would ensure administrative efficiency and promote the expansion of overall housing resources dedicated to HOME-assisted activities.

The current HOME match, which does not recognize private sector resources as legitimate forms of contribution, effectively discourages public-private partnerships in addressing our housing needs. By emphasizing public resources over private, I believe we are missing an opportunity to access the more abundant resources available through private-sector lenders and investors.

In a recent meeting with HUD Secretary Henry Cisneros, mayors from throughout the country identified the HOME match as the most critical obstacle to future participation.

We vigorously urge the subcommittee to revisit the burdensome match requirement and to provide a more responsive and flexible approach, such as the leveraged mechanism, for securing the commitment of participating communities, while increasing the overall resources designated for housing.

We're hopeful that HOME will one day become the well recognized and effective housing block grant program envisioned at its creation. The new administration's strong support for the HOME program, as reflected in the $1.6 billion fiscal year 1994 budget request, and the HUD Secretary's commitment to making HOME more responsive and flexible for States and local governments, clearly signal a new beginning for the HOME program. In fact, HUD has recently packaged a set of regulatory modifications currently under review at the Office of Management and Budget, that will greatly improve HOME operations and enhance the rapid expenditure of HOME funds.

We strongly recommend that the subcommittee quickly approve this interim rule once it is forwarded for your review. We're also encouraged by Congress' action last year which provided significant modifications to the program through the Housing and Community Development Act of 1992. The changes made to the resale restrictions, administrative allowance, and new construction provisions,

as well as a number of other legislative improvements, provide much needed flexibility in the program.

I would also like to take this opportunity to comment on how gratifying it is to witness the kind of cooperation and partnership the new administration and the subcommittee demonstrated earlier this year in resolving the HOME administrative allowance issue through a joint letter clarifying congressional intent. The letter, signed by House and Senate Banking Subcommittee chair and ranking members, provided HUD with the necessary information to resolve the administrative cost issue. We hope this positive spirit of collaboration continues as we work to further improve the HOME program.

Mr. Chairman, Senator Moseley-Braun, local governments are ready to work with you and members of the subcommittee to facilitate effective and efficient administration of the HOME program at the local level. We thank you again for the opportunity to present the views of national organizations representing elected and appointed local government officials in the HOME program, and we look forward to your continued support and leadership in addressing the critical affordable housing needs of our communities.

Thank you very much.

Senator SARBANES. Thank you very much for a very helpful statement, and also for the attachment to it of the various changes you recommend, both statutory and regulatory.

Now I want to be clear on your time situation. Do you need to excuse yourself and depart?

Ms. VONEIDA. My "keeper" says 10 minutes.

Senator SARBANES. I think what we'd better do, if the other members of the panel will indulge us, is perhaps put a question or two to you and then excuse you, because if we wait to hear from everyone else, you'll have to leave then and we won't—I'm obviously going to ask you about the match very quickly. What's the problem with the match? The communities just can't afford to do it?

Ms. VONEIDA. I think it's that. I think that cities provide an ongoing commitment to their neighborhoods through their general local activities, which are police, fire, picking up garbage, things like that. That is where the focus is. And it's very, very difficult when you're trying to deal with crime issues in our neighborhoods where we've targeted our housing, when you come in and say, yes, but instead of two more policemen, we need you to commit x dollars to the program.

I'm not sure I understand——

Senator SARBANES. It's difficult for you to get the local elected people to do that? Is that the problem?

Ms. VONEIDA. To do that, to provide general fund dollars.

The city of Rockford itself, by going through an exercise in creativity, and I'm afraid that that's sometimes what this is going to be, a test of how we can get around the match provisions. To be perfectly honest, we're going to be able to provide our match in 1993, for various reasons, part of which has to do with the tax increment legislation, which my local government officials don't recognize as a general fund commitment. So they're willing to spend those dollars on housing.

So by opening up the match provisions in 1992, it made it possible for the city of Rockford. But I don't think that's typical throughout the country.

Senator SARBANES. If you have two communities, community A and community B, and community A says, well, we're willing to take on a little extra burden in order to move this program and provide our match, and community B says, well, we're not really willing to do that.

Now leaving aside the question of the ultimate recipients of the program, which is obviously the people that we want to help. But since the number of such ultimate recipients far exceeds the resources that are available, so it's not as though no one's going to be left out. Someone's going to be left out, at least for quite a while because the level of resources is very far below the level of need.

Why shouldn't the resources flow from the Federal level to those communities that are prepared to take on the extra burden, particularly when we've given a waiver authority so that in a highly pressing situation that is really close to devastation, the Secretary can waive it and the program can proceed.

Ms. VONEIDA. I guess I can't leave aside the ultimate recipient and disregard that, even though I know the need is much greater than the resources available. I just don't think it's fair to punish cities or low-income people who live in communities where there is the possibility only to raise taxes or not get involved in a housing program.

Senator SARBANES. Of course, someone is going to be, to use your term, punished or left out because there just isn't enough money. Would the Rockford city council have committed that money that you talked about under this different way if there had been no match requirement?

Ms. VONEIDA. We did it earlier than that. It happens that the match fits that program. It's a program that was created in 1981. I didn't test them. I haven't tested them yet.

I guess for the match provision, the waiver of the match provision for communities, Philadelphia and Bridgeport only received a 50-percent waiver, and I don't think either one of them could possibly come up with any kind of cash match. And if it's other kinds of creative match, and I agree that we should all be trying to be as creative as possible, just getting these financed requires creativity, whether there's a match or not.

I don't think abatement of taxes, which is a tiny little number in the neighborhoods that we're working in, is going to come anywhere near the 25-percent requirement.

I really believe that we should be encouraging leveraging, that we should be encouraging bringing the private sector in, who have far more resources than we do and that that's going to multiply your housing dollars far in excess of the 25 percent of the match required.

Senator SARBANES. Well, of course, the match presupposes you're going to draw the private sector in as well. It isn't intended to rule that out.

I'll yield to Senator Moseley-Braun, because I know your time's running out.

Senator MOSELEY-BRAUN. Yes, thank you. I will be very brief.

I think the Chairman and I are on the same wavelength with regard to the question about the match, in that the match requirement does not preclude private sector involvement or preclude leveraging. So let's just put that over there for a moment.

In terms of the match, there are waiver requirements. Are you suggesting that the problem has been that the waivers are not given expeditiously, that that's a whole other set of bureaucratic hoops to go through that has a tendency to slow down the projects, or that the waivers aren't being given at all? Is it an administrative problem with the waivers, or is it that local governments in depressed communities don't apply for them?

Ms. VONEIDA. No. It's the definition of how you can receive a waiver. And if the cities of Philadelphia and Bridgeport only qualify for a 50-percent waiver, so they still have to come up with 50 percent of the required match, I don't see how any cities—I don't think that the definitions reflect the ability to provide the match.

Senator SARBANES. Let me just make a point about Philadelphia, which is one of our Nation's great cities. They got a new mayor. The new mayor says, I'm really going to try to shake this city up. And the new mayor for the first time is going to produce, apparently, a budget that's balanced, and so forth and so on.

Philadelphia obviously needed to make some very important internal changes in its ability to function as a governing municipality.

Now there's a real problem here because if we're going to let this money go out and not have any matches and all the rest of it, first of all, you're going to lose resources for housing, for this effort, that would otherwise be available. And second, you have no way—this is one way to try to get some assurance that the State and local people are really sort of producing something of their own, bringing something to the table.

Senator MOSELEY-BRAUN. But it sounds, Mr. Chairman, and again, I'd like to follow up, it sounds as though the administration of the waiver requirements, where necessary, where it's a function of the community being economically depressed, or distressed, that if the administration of that part of the program is not working well——

Senator SARBANES. Well, of course, if you don't do the waiver with some care and restraint, it just kind of becomes a loophole that wipes out the match.

That's the problem. And the reason I intervened then is, just on the face of it, without knowing all of the local circumstances, the city of Philadelphia does not strike me, with all of its problems—but I mean, if you're going to start giving complete waivers to the very large, great cities of the country, then the match is going to become meaningless, in effect, because the waiver will in effect consume the match.

Ms. VONEIDA. If I could make one final point about the fact——

Senator SARBANES. I see the waiver as helping smaller cities that are—East St. Louis, I guess, might be an example of where things apparently are so difficult, it's just beyond comprehension. But if we start giving 100-percent waivers to Philadelphia and New York and Chicago and Los Angeles and Baltimore and all the rest of it, the match isn't going to mean anything.

Ms. VONEIDA. One final point, if I could make it.

I believe that my colleagues, and I certainly can speak for myself, around the country, are not going to be committing fewer resources to housing whether there's a match or not. I don't think that would be the ultimate result. I think that we're still going to struggle to be able to finance with the amount of different funding sources that are required just to make these projects work. So I really don't think that there will be fewer resources.

Senator SARBANES. How about committing more?

Ms. VONEIDA. More match?

Senator SARBANES. No, more resources because of the match.

Ms. VONEIDA. I think the encouragement, however you do it, to reward leveraging is much more important than requiring a match.

Senator SARBANES. Thank you very much. We appreciate it.

Ms. VONEIDA. Thank you, and thank you for taking me out of turn. I really appreciate that and having the opportunity to be here.

Senator SARBANES. We're very pleased you're with us and we appreciate your statement.

I think we'll go to Trudy——

Senator MOSELEY-BRAUN. Mr. Chairman, I'm sorry. I have another commitment, another committee to go to. And so I'm going to dash out of here, if that's all right.

Senator SARBANES. I understand. Thank you very much for being with us.

Trudy McFall, and then we'll take the two gentlemen on the panel.

STATEMENT OF TRUDY McFALL, DIRECTOR, MARYLAND COMMUNITY DEVELOPMENT ADMINISTRATION, NATIONAL COUNCIL OF STATE HOUSING FINANCE AGENCIES, BALTIMORE, MD

Ms. MCFALL. Good morning. Thank you, Mr. Chairman.

Senator SARBANES. Trudy, I think if you pull that microphone closer, we'd be better able to hear you.

Ms. MCFALL. Sure. It's an honor to be asked to be here to give feedback to the architect of this fine bill from our State.

I would like to just touch on a few points that I understood to be sort of topical and on the table.

Senator SARBANES. Your full statement will be included in the record, so why don't you just summarize the major points.

Ms. MCFALL. I appreciate that. That's the part of me that's representing NCSHA, and I guess my verbal comments will represent the Maryland perspective. I may say something more sharp or controversial, then NCSHA would have for representing all their members, although I certainly endorse everything that's in that paper.

I'd like to give one more lick to maybe what's now a dead horse about the general utility of HUD. I think it is time for us to begin to tout its successes and keep the focus where it belongs on regulatory reform, which we've all described in a variety of colorful ways and we certainly endorse. There's a lot of work to do to clean out the regs. There are serious problems.

I think the legislative framework is really very good. The cleanups last year hit on what I thought were absolutely the key issues

and were a big help. I honestly don't think we've had time to digest them and stability, as one or more of the speakers said, I think is important for us to get a known set of rules in place.

There are a couple of legislative things that we maybe want to keep an eye on, maybe things that deserve changing earlier. I'd like to comment on a couple of those. But, in general, I think that the program has probably done pretty well in getting going, considering the obstacles and difficulties which were absolutely enormous. It seemed initially, under the first regs and the first law, that there was literally no way to get there from here. Every track you tried.

And as you know, in Maryland, because of the activity and resources that Maryland brings to the table, we had a lot of flexibility to try the best shots to apply HOME and avoid what we thought would be hazardous. And even the best shots didn't get us there. So the changes are real important.

There is one statistic in terms of singing HOME's successes that's in the NCSHA paper and I think will cheer you up about the funding level.

When our organization did a recent survey last week to be as responsive as it could to the concerns, a tentative, and I don't think anybody would claim it's hugely scientific, but found of the States responding, that 67 percent of the 1992 funds were awarded or allocated. They're not appearing in closed loans and draws on HUD's computer system, but we really are getting there. We're getting the funds, the projects selected and the funds awarded and allocated.

I think the pace will accelerate greatly now, all the way through to the disbursement columns that are so important to the success of the program. So I think the pace is now picking up.

I'd like to comment on the match issue. We believe, the States and Maryland, very strongly, in the match issue, for all the reasons that you have said.

It seems to me that perhaps one thing that doesn't get emphasized quite enough when local governments look at this issue is that State funds count for match in the State. In Maryland, for example, in a bad year, the State provides $40 million in State funding for housing, and in a good year, will provide $50 million. We could match any amount of HOME monies backward and forward for the State and for the participating jurisdictions.

So I think one answer to the match question for strapped local governments is what about getting your States more active in providing funds for housing? They too can franchise all the participating jurisdictions for HOME money. I think that's an important role and an important pressure for States to feel. I strongly support your sticking with the State match.

And I totally agree with the notion that State money, local money, our money, is what makes us accountable and what gives us the right to say to HUD, back off, make reasonable requirements, broad monitoring and oversight. But fundamentally, it's our money and our State that will monitor us and hold us accountable, and I think that's real important to keeping all levels of government honest, have their own money in the package.

I would like to pass along one interesting fact. I'm not sure I now what to make of it. But in 1986, as I know you know, and Fred knows, bless him, we passed a wonderful package of housing laws

in Maryland. All of the rental programs required a local contribution. We didn't set a percent. We didn't set an absolute amount. We sort of told us, the administrators, go forth and give some tough love and wring out what you reasonably can of local governments in some relationship to their ability to pay.

We've now done some 35 rental housing projects under those laws and the match that we have wrung out of local contributions, and it's very flexible. It might be tax deferments, cash, CDBG, that's their own entitlement money, a variety of things, is 15 percent.

I think maybe that is a little sobering about the potential of the 30 percents and the 25 percents being achievable, unless States perhaps are brought into the picture to help with the match requirement of local governments.

It's, I think, an interesting local experience. I think we got about as much as we could reasonably get out of those governments and still have the projects go forward. I think we're somewhere in the ballpark of the kinds of ability local governments had in Maryland to provide their own match. Now, again, that's not what HOME would count. HOME would say, that 15 percent plus our State money, will all qualify as HOME match.

So that's a little piece of Maryland experience that might be useful.

Senator SARBANES. That's very helpful.

Ms. MCFALL. And I have a full list of all the projects and exactly what the local contributions were, and the percent of the total development costs of the project, the percent of our loan, which that is what the 15 percent is, and that they put in, so you can see one illustration of HOME.

Senator SARBANES. I just want to interject at this point, part of the thinking behind all of this, at least on my part, and I think many others, is that it would induce State governments to become more involved in addressing the housing needs of their local communities.

Ms. MCFALL. Yes.

Senator SARBANES. And since the State has a broader jurisdiction and a more diversified tax base, you serve some of the purpose of getting the State, in effect, to help their more financially pressed communities by doing this. So you energize State governments to become more involved, as well as the local governments, in addressing the housing needs of their people.

Ms. MCFALL. But somehow, that seems to be getting lost in the dialog over match at the local level, and I think it should be made.

Could I just say, on the subject of our programs that require at match, I absolutely firmly believe that 15 percent, most of it is new money going into housing which the local governments would not have put into housing, but for our State law requirements. Absolutely, I believe that. I think it's an increase in funding.

Targeting—actually, income targeting didn't—oh, yes, it did come up in her statement.

I would just like to say that we think the income targeting is just fine. As I think you know, in Maryland, we use all our HOME money for 30 percent and below. So we're not the least bit interested in endorsing HOME funds going higher. In our version of the

world, bond funds that every State administers provide a middle income. Our State resources provide that kind of, I guess I'd describe it as 60 percent to 30 percent. And our HOME are very low-income, and we cherish them for that.

Now I'm not suggesting that HOME should be lower. Just simply, we would be very much opposed to income levels being raised. I think they're quite generous already and I don't think HOME is meant to be a comprehensive housing program. I think the Federal Government has every right to say, we provide resources for the poor and the very poor. I think you should stick with that view. I think you've actually been generous in the income targeting, not stingy. So I wouldn't want to see them change.

Last, and this maybe will get my colleagues at the table excited as anybody, we sure wish we could do everything we could to facilitate the activities of nonprofits and we don't think the participation and activity of nonprofits are advanced by having multiple definitions of what's the correct nonprofit in multiple Federal programs. And we sure wish we could define nonprofits once in a broad, flexible way and it could apply for tax-exempt bonds, tax credits, HOME and CDBG.

Again, if I could, let me give you a Maryland example that I think hopefully illustrates something.

CDA has made 343 loans to nonprofits, to 116 different nonprofits. Forty-three percent of our State monies that go to sponsor housing has gone to nonprofits. I'm enormously proud of that. That's what you can do when you've got flexible resources that do low-income housing.

One hundred sixteen, I just said. We have in Maryland after a year two certified CHDO's and one coming on line under the CHDO set-aside. Meanwhile, 50 percent of our HOME money is going to nonprofits who are not CHDO's. So that the CHDO set-aside is being artificially restrained and having great winners between the two CHDO's.

Honestly, we don't understand this national debate over what's a good nonprofit. We think there are diversity of nonprofits ranging from neighborhood-based to retired businessmen creating nonprofits. They all work in Maryland. They do fine work. We may have somewhat different policies about how we treat them at a State level in terms of a policy perspective.

We don't think the Federal Government needs to do this kind of definition of nonprofits and would greatly urge cleaning that up and give us a single uniform definition. We think the tax credit nonprofit definition is fine. We think there's some good, broad, nonprofit language that covers the basic principles of what you at the Federal level need to look out for in nonprofits. And other than that, we think that it's something again that State and local governments are quite capable of sorting through for themselves, of what kind of nonprofits we wish to do business with.

One last point.

We're not quite there yet to speak with full conviction, but it looks like ahead, the environmental review and Davis-Bacon are just a nightmare for HOME. They're lower standards, meaning they kick in with less units than CDBG.

I don't know how a Federal agency can take what I think is broad law, run it in the same place, and come out with two sets of different requirements for the same function.

It's astonishing, but that's something I think that has really got to be fixed or we just won't ever get anything through Davis Bacon and environmental review on the ground.

Thank you.

Senator SARBANES. Thank you very much. It's very helpful.

Mr. Swanson.

STATEMENT OF LARRY SWANSON, DIRECTOR OF HOUSING DEVELOPMENT, ACTION HOUSING, PITTSBURGH, PA

Mr. SWANSON. Thank you, Senator.

I'd also like to request that my full remarks be entered in the record.

Senator SARBANES. The statement will be included in the record. And I want to say to all of the witnesses, we're very appreciative for the work that's obviously gone into these statements.

Mr. SWANSON. Thank you. ACTION Housing is a private, nonprofit corporation that is involved in housing, programs, housing development, housing services, for 36 years in the city of Pittsburgh, in Allegheny County in Pennsylvania.

Obviously, our organization has been through the full continuum of HUD programs going back to the 236–B MIR, 221–B–3 B MIR, the 236 program. We were a participant in developing small section 8 family projects in the 1970's, and we are fully involved in the HUD 202 and 811 programs for special needs housing in Pittsburgh.

Over the last 7 years, ACTION Housing has focused most of its development efforts in pursuing developments that serve special needs populations, which I further describe in my remarks.

What we did for the HOME program, quite honestly, was to separate our ACTION Housing activities from our AHI development activities. I'm also vice president of a wholly owned, nonprofit subsidiary, AHI Development, which holds some of our real estate. We made a decision in response to the CHDO guidelines to restructure that organization, to broaden that board. And even though we had individuals on that board who qualified under the CHDO rules, we decided to have required numbers of new individuals so as to bring it to the full level of representation.

Our experiences have been in two areas of the HOME program.

First of all, I want to talk about the city of Pittsburgh and then the Commonwealth of Pennsylvania.

ACTION Housing has worked closely with these two levels of government. And in previous housing programs, the city has had a long tradition of having a proactive role in housing. In fact, as you know, the former housing director is now with the Enterprise Foundation and their current housing director came to us from the State of Maryland, which I found out today worked with Ms. McFall.

The city was able to commit all of its HOME funds by March 1993 and, according to our local HUD area office, was the first city to do so. Of that, $1.43 million was actually drawn down and expended. They committed all funds by March 1993. Of that, $2.61

million went for the low-income rental development activities that are a feature of this program. In fact, the city is preparing a report which I will encourage them to send along to the committee which describes exactly what they did with their funds, the projects that were involved, and what happened.

I think it's fair to say that the city of Pittsburgh is an example of a city in a context where we have a strong proactive city organization where there are 40 or 50 community-based organizations, some of which have been around a long time, or active in housing development, where you have several nonprofits community-wide like our own organization, where you have private lenders, where you have a development community that's well attuned to how to spend money in housing development and accomplish goals. I think that's the reason why the city has been so successful.

I talked to the city's housing director, Steve Leaper, in preparation of this testimony. He said he currently had in hand $7 million to $10 million in projects which would be twice their annual allocation that he can move forward immediately under the income guidelines and restrictions of the current HOME program.

So the city is an example of a system that has been built over a very long period of time where it is fully capable of moving forward and using the HOME funds.

Senator SARBANES. I'd like to read into the record now because I see where you are in your statement, your sentence that says:

> The city of Pittsburgh has had a consistently strong involvement in both single-family rehabilitation and multifamily development over a 20-year period. It has utilized the CDBG allocations, State housing funds, private resources, agency earnings, and city capital funds to provide both a consistent product and build a system in which private developers, nonprofit organizations, and community-based organizations have been able to have significant success in housing product.

Now that's what we're trying to get all across the country. I'm not in a position, obviously, to evaluate your end product, but certainly, the system you describe here, the context of it, is exactly what we're trying to get in place all across the country.

Mr. SWANSON. I think that's correct. In fact, at the end of my testimony, I'm going to suggest that there is a very important need to create a system to evaluate the end product so that we have the ability to substantiate how we're spending our money and we have the ability to correct the system over time, because as a housing developer—and my organization is actively involved in real estate development—we are or have developed $38 million worth of real estate over the last 6 years. We're involved in real estate development decisions every day. The environment has changed rapidly in the last 18 months. As an organization focusing on if we're really serving the populations we intended to serve in the manner we intended to do so, is very important.

In contrast to the city of Pittsburgh, we've also worked in the State of Pennsylvania, the Commonwealth of Pennsylvania. Most of the CDBG entitlement communities also directly participate, as participating jurisdictions with HUD. The balance of the State is handled by the Commonwealth. We have worked closely with the State, and I particularly have worked with the State in its HOME program.

The State of Pennsylvania has had a long-term commitment to housing. Unfortunately, not as strong as Maryland. In a good year

in Pennsylvania, we spend $20 million in housing. And in a bad year in Pennsylvania, we spend $20 million in housing, unlike Maryland which does more in a good year.

Pennsylvania also has primarily in its housing functions outside of its HFA functions, done two things. First of all, they've had a strong mortgage assistance program which I think is a very progressive program to help homeowners stay in place and avoid problems of homelessness. It's been a significant State commitment of $10 million to $15 million per year beyond the housing allocations.

Second, the State, as a funder in housing, has been primarily a gap funder. It has primarily given money for projects that were originated by the urban redevelopment authority in the city of Pittsburgh and Philadelphia organizations. It has been a major funder, but a gap funder and has primarily relied on others to do the underwriting on projects.

So the picture I want to paint is the State has not had, although it's been a major player as a housing funder, it has not been in the delivery mechanism for housing functions. It has taken projects that were ready to go, but needed another 10–15 percent, sometimes 40 percent, and it has placed that money in them. But it was not involved in the initiation or, really, in the underwriting of the project.

In Pennsylvania, when you couple the fact that the State had that kind of a role, plus the State, as a matter of fairness, wanted to provide housing funds for those jurisdictions that were not eligible directly for HUD on a first priority basis, the State made all other jurisdictions a second priority.

The State allocation for HOME funds was $23.8 million. They received about $114 million in applications for that $23.8 million, to show you the demand level. They received somewhere over $40 million in applications in those priority one communities. That's the part of Pennsylvania that doesn't have the strong housing capacity. Outside the city of Pittsburgh, Allegheny County, the city of Philadelphia, Allentown, Erie, those communities that have the capacity, or at least some public capacity. Out of that, they received around $40 million in applications, $27 million of which was considered fundable.

In the first week in April, they awarded $17 million of funds in those first priority communities, plus the CHDO set-aside, and effectively, made all their funding announcements.

Because of the State's type of delivery system, I think we were harmed in the sense that we were not able to move as rapidly as other States like Maryland. The changes in the law slowed down the State allocation system, but I think now, the State has been able to move forward.

My own organization is involved in two CHDO set-asides, applications in the city of McKeesport, which is in the State jurisdiction. Those projects are under the rent restrictions and we don't have any of the problems with making those projects go.

Our major problem in the State local system is in getting the interpretations of the guidelines from HUD. If you ask me what my wish list would be, the only item on that would be to have the direct HUD involvement in interpreting guidelines so that we could go to the table and discuss the project and find out how to resolve

the rural problems on a local level, because that's how the development activity has to take place.

At any rate, the State in its plan had wanted to devote a substantial portion of its housing money, $23.8 million, to rental housing. In fact, I don't have the numbers on it, but most of it will go for single-family, low-income rehabilitation and other related uses and will be unable to move forward because of the lack of, first, development capacity from nonprofits and privates; and second, the timing issues, to spend a substantial amount of its money, as much as it wanted to spend, in rental development activity. I think that points to the issue that, in order to be successful as a State, we have to build capacity in our smaller communities outside of our major areas.

In closing, I'd like to make three comments related to the HOME legislation.

First of all, we believe that we should retain the targeting requirements for very low-income residents in housing. Although the targets create project burdens, it is clear to us that they are justified and that the increased benefit to lower-income households and the capacity to use these funds is in place.

It has been our experience that the issue of credit availability is a more significant issue than the targeting requirements. Credit is available from private lenders through the various CRA activities. We've had a problem with credit availability lately from the FHA. But our major issue in developing the project has to do with credit availability, not the income targeting requirements.

Second, we strongly support the expansion of staff and technical systems capacity of public, regional and local levels in the public and private sectors. That's part of building the system. That's what we really need to be about.

Where there is strong public and private capacity, the HOME program has moved quickly to fund the types of projects envisioned by Congress. But where there is insufficient public and private capacity, the program has floundered.

I'd also want to add that the national and local CHDO technical assistance program should be expanded with a strong emphasis on funding and refunding those intermediaries with a record of success. There's a collateral need to increase capacity in the public sector as well.

And finally, we also believe it is important to create and monitor a system that determines on a short-term basis, within a year, the effectiveness of the program. It is my understanding that two national organizations the National Low Income Housing Coalition—Mr. Zigas is here—and the Enterprise Foundation, have worked to develop such a data base. We certainly hope that that kind of information is used to refine the HOME program in the future.

Thank you.

Senator SARBANES. Thank you. It's a very helpful statement.

Barry, we'd be happy to hear from you.

STATEMENT OF BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, DC

Mr. ZIGAS. Mr. Chairman, thank you. I'll, like the others, ask that my statement be submitted for the record.

I want to apologize to the committee. When I got here this morning and saw what the copier had delivered, I realized that you're missing page 8 of the statement. So we will get you a complete statement later today.

I want to thank you, Mr. Chairman, for the opportunity to testify today and for the kind of support you've shown over the years for these programs and efforts to help low-income people to face what's really a very desperate housing crisis.

I'm here today representing the National Low Income Housing Coalition, which is a national nonpartisan membership organization representing low-income residents, community-based organizations that serve them, and others who are interested in assuring that all Americans have a decent and affordable home. I also served as a member of the National Housing Task Force in 1987 and 1988, whose recommendations led in some part to the design of this program.

I'd like first just to touch briefly on the importance of the HOME program as a tool in the Federal arsenal.

There remains a tremendous gap between what's needed in the low-income housing market and what's available in the private sector. The housing needs that were outlined by Jim Rouse and David Maxwell this morning are getting worse and not better. The Harvard Joint Center for Housing Studies will shortly be releasing its 1993 report, and everything in there points to a steadily worsening situation in the rental market.

Despite relative softness in the higher end of the rental market about which we hear so much—high vacancy rates, failing developments and so on—low-cost rents continue to unravel and units that are affordable to low-income renters have practically vanished.

Participation in Federal housing assistance programs, meanwhile, was lower than in most programs aimed at assisting those in poverty. Fewer than one-third of all poverty-level renters participate in Federal housing assistance programs. And fewer than a quarter of all those who are actually eligible for HUD programs do so. So we have a long, long way to go, and HOME is a central part of efforts to meet those needs.

The HOME program has, I think, been a remarkable success. Considering the amount of time and effort it took to make it, I think it's actually matured rather quickly. We have to keep reminding ourselves that it was almost a decade in the designing and if, in 2 years, we have States putting out almost all their money, I'd count that a pretty big success.

Things are not as bad as they seem. I think the regs came out in record time and Congress did have to go back and make statutory changes that were essential to correct problems in the 1990 statute.

Our survey work, again, like Trudy's, is not scientific, but we did make an effort to find out how this is working around the country, shows that the HOME program is functioning all over the country.

Now, commitment rates certainly vary, but we did not hear from anyone that they are completely stalled out, paralyzed, or otherwise unable to make use of this. And you've heard from other witnesses, specifically how this goes.

As we continue our research, we'll be happy to share it with the committee.

This also culminates more than a decade of effort to provide more responsibility and accountability for housing assistance programs at the local level. I think that history is one worth remembering. This is the very first time that housing assistance programs have really been lodged with State and local governments, rather than a direct relationship with HUD and developers.

Those of us who, perhaps unfortunately, like Larry and Trudy, can go back far enough to remember the implementation of the section 8 program, in 1974 and 1975, remember that it was derided as the "housing assistance program that will never work," and then became the housing assistance program without which the western world could not survive. I think you see that every new program has its bumps.

The specific set-aside for CHDO's also marked a major recognition, not just of nonprofit activities, but also of nonprofit activities that are driven by and for low-income residents themselves.

There are a few major issues I wanted to quickly address. First, funding. There is inadequate funding in the program. It's largely an appropriations problem. It is truly amazing to think that $1.6 billion in direct grants for housing is considered sufficient when compared to the kinds of levels of funding we saw in the 1970's under both Republican and Democratic administrations and the kind of huge allocations we make to tax assistance for primarily wealthy homeowners.

Second, on targeting, I'd like to associate myself with everything Trudy said on this matter and say that I think we have done lots of research on housing needs and they are clearly most concentrated among those with incomes below 30 percent of the area median, not below 80 percent or even 50 percent.

Median incomes today are higher than most people think. In my statement, I've tried to lay out a sample of those that HUD provided us for a family of four, their 1993 levels, and I think you'll see they are relatively high.

The HOME program uses resources that were previously spent on highly targeted, very low-income housing efforts. I think the choice Congress made was to move into an area of more discretion at the local and State level, not necessarily to abandon the opportunities or intentions it had in the prior funding.

The current targeting in our book is really not good enough, but it certainly should not be reduced any further, as some witnesses here have suggested.

The testimony shows that the rent levels that have been described here as being problematic, we tried to compare those in the chart with the testimony I submitted. The percentages of rent at various levels of median income for a family of three in selected jurisdictions, you can see that in sizable portions of the country, neither the FMR, nor even the tax credit rents, by themselves, offer significantly affordable homes to those with the greatest housing needs. To allow the HOME program simply to be a production vehicle for housing pegged to the fair market rent would be a terrible waste of Federal resources, in our view.

Current targeting is not, by the way, an issue for any of the jurisdictions that we surveyed. Nobody had a problem with it. No one complained about it or suggested that they were having problems spending the money because of it.

Third, the match. Again, I have to agree fully with Trudy McFall's statements and others, including your own, Mr. Chairman, on the importance of the match. Chairmen Rouse and Maxwell this morning described the history of the match and why the task force recommended it. And we didn't do so lightly. We did so with the full cooperation of State and local governments on the task force, and did it for a couple of reasons.

One was to encourage real responsibility in the use of these funds, so they would not become simply a Federal grant. Second was to try to accommodate a felt need for at least some modicum of a maintenance-of-effort requirement as previously federally administered funds were passed on to State and local governments.

The concern you raised about new money coming in is mirrored in our own concern representing advocates around the country who have struggled to bring State and local governments into the housing arena, as to whether there will be less money when the HOME program arrives.

There's tremendous concern that HOME is going to displace State and local funding because it will be easy to do so. And in fact, there's some spotty evidence of that. But we think the match is a major impediment against that tendency. We think that it is an important part of this process.

An issue that has not been raised by other witnesses and I think is important to note is that the match and the HOME program are economic revenue generators. We have done work, which I will be happy to send over to the committee, about what you can expect in terms of tax receipts, both property and income tax, sales tax by the employment of individuals, by all the spin-offs of real estate and housing construction, and the relatively minor amount State and local governments are being asked to put into the pot will repay that investment many, many times over.

I think that's an aspect of this entire conversation that's been completely ignored and one that I think this Congress ought to take into consideration. Again, our survey did not show this to be——

Senator SARBANES. Please send that study over to us. We'd be glad to have it.

Mr. ZIGAS. I'd be happy to do that. Our survey did not show this to be a significant hurdle, either. Now perhaps that was biased by the fact that 1992 money was not subject to any match at all. But, again, in talking to PJ's and CHDO's and State housing coalitions with whom we work, we did not find big problems. I would make two recommendations in this regard, though.

One is we would continue to support setting the match at one level for all investments. We believe the differentiation between new construction and other activities is unnecessary and burdensome. Second, I would hope that we can once again get Congress to pass a slight change that would clarify that where local governments and State governments invest money through deferred loans that are really placed permanently with the property but in the

form of a deferred loan rather than as a grant, that it would be counted as match. This was a provision that was in fact in the legislation in 1992, but got bumped out at the administration's request.

I would hope that this administration would look more favorably on it. Many local and State governments prefer to use deferred loans because it allows them to continue to have an operating relationship with borrowers, and to penalize them should they decide to forego the income restrictions or anything else and recapture the money. There's no reason given the structure of these loans not to count them as matches. There's a technical problem.

CHDO definitions, and here's where I do disagree with Trudy. To give you some background, the National Community Housing Partnership provisions of this act originated back in 1984, when the National Low Income Housing Coalition first proposed it as a result of a very widely based grassroots policy formulation process. We did it for a couple of reasons.

One, and most important, was to try to foster the development of truly community-controlled and community-based organizations to become an additional partner in the housing sector.

This was not out of disrespect to other nonprofits, many of whom functioned primarily like big businesses, but out of a desire to increase the capacity of the community-based development sector.

Our survey did not reveal big problems in the current definitions of CHDO's which we think are really quite broad. Some of my board thinks they're too broad. But the differentiation between any nonprofit and those that have significant representation by low-income residents, residents in the neighborhoods and representatives of those groups, thus, is an important distinction.

Eighty-five percent of this money is available for any other nonprofit and the CHDO definition is freely available to any nonprofit, as Larry says, who chooses to take it.

I'd make a couple of other brief points that are covered in the part of the testimony that didn't get copied.

We would very much support the ability to use capitalized accounts in the HOME program for specific projects, not just for initial operating support, which was provided for in the 1992 legislation, but also so long-term funds could provide operating subsidies and tenant assistance in the properties.

Some of the PJ's with whom we work are anxious to set up such funds in order to further subsidize the rents for residents, without having to put it in as a big grant on the capital, but instead, generate, in effect, a continuing source of income for the project.

Right now, that wouldn't be counted as an eligible expense because it doesn't fit the specific definition. We think it would be a useful thing to do when it's aimed at reducing the cost to low-income residents.

I'm going to stop and just make one final point here, Mr. Chairman. And that is that we've talked a little about the inconsistencies between nonprofit definitions and rent requirements and targeting.

I think what this really highlights more than anything else is not a flaw in the HOME program or in your work here, but in the lack of coordination between housing policies that we've seen proliferate

in the last decade. And this is particularly true with the heavy involvement of the tax writing committees and tax subsidies that were, until 1990, the primary means by which we undertook housing development and preservation for low-income residents.

As advocates for housing and as advocates for very low-income residents, we made significant compromises in our own principles and objectives in getting the low-income housing tax credit adopted in 1986, because it was a tax program and not a housing program, and agreed that the shallowness of that subsidy really prevented us from making the same kinds of demands that we would normally make on a direct subsidy program which can be invested as grants.

Now we find that that program is driving every other program in the Federal arsenal. Because the tax credit targeting is such, everything else should be. Because the income limitations are such, they should be so elsewhere.

I think it's time for the Banking Committee and the tax writing committee to sit down and really, with the administration's help, I hope, in this new administration, come up with a uniform set of understandings about what the intentions of Federal subsidies, which are so scarce, should be and then to try to initiate standard and uniform definitions, rather than us trying to compete with each program to figure out which one serves our individual purposes best and then claim that is the standard to which all other programs should be held.

With that, Senator, I want to thank you again for your tremendous support and steadfastness in this area, and I appreciate the opportunity to be here today.

Senator SARBANES. Well, thank you very much. This has been an extremely helpful panel. Of course, we've run very late and I appreciate your staying with us through the morning.

I'm going to put only a few questions. These statements have been enormously helpful to us, with the various proposals to improve the situation. It's something that we can now take and digest and engage in a dialog with HUD about in order to move this program.

I want to be clear on one thing. I have some concern that we not—every time you have a big focus on changing the statute, there's a tendency for things to come to a halt, or at least to slow down. And everyone awaits what the new statutory framework is going to be. That's one problem.

The other problem is, even if you get a statutory framework, if you don't have the resources with which to make it work, it's an empty shell. It may be a very nice shell, but it's empty.

And of course, the third is, if you have, if not sufficient, at least adequate, resources to move, then you have the whole problem of implementing the statutory arrangement, the administration of it, the regulations, the thing I read to Mr. Swanson, getting those systems into place, and so forth.

I want to be sure where we are now and I want to just check out some perceptions of mine.

My first perception is that, with the modifications that we made last year, we have essentially a statutory framework now that can work. It may need some adjusting, some fine-tuning, perhaps, but

we really ought not to get back into a major focus on statutory change at this point. We have a statutory framework that can be made to work. It is being made to work in a sufficient number of instances that it sends a lesson that it can be made to work in others, I would assume, and that therefore, that's not where the prime focus would be. Does everyone concur with that perception?

Mr. ZIGAS. I would, Senator, and I would also say that I think it's important to make a distinction between what this program is sometimes described as and what the committee originally intended it to be and what the task force intended it to be. It's described now commonly as a block grant. And therefore, certain assumptions and demands are being made upon it.

But it was always designed to be an *investment partnership program,* which is very different, in my mind, from a block grant. I think the statutory framework hews more to that design than to a block grant design and is appropriate and doesn't need any kind of substantial radical change.

Senator SARBANES. Yes.

Mr. SWANSON. I certainly agree that the framework is there. And in reality, we need time for the system to grow and respond. As I gave examples in the State, a lot of us are working to try to build capacity across the State. It will happen, but over time. So the framework is there.

Ms. MCFALL. I agree. I think that even some of the issues that we raise like match and CHDO, some of those may be going into the watch-and-ponder category and see if they really are dysfunctional enough to change.

Senator SARBANES. Yes, of course, some of those provisions in the law were the consequence of an intense political adjustment that had to be made in the course of writing the statute. We may be able to get some of those made fairly easily since there's a new purpose and direction now at work, I think.

Second, on the resources, we all recognize that problem and we just simply have to address it as best we can. But I do want to say that he whole matching arrangement was designed to try to draw some additional resources into housing.

Now you did not read that paragraph in your statement right toward the end about the States that—why don't you just make that point for the record?

Mr. ZIGAS. In the written statement, I just pointed out that in our survey work, we found a number of States who in fact either acted affirmatively to add money and general revenues—Texas is the most notable State that had not in the past had any general appropriations for housing assistance. In 1991, in its biennial appropriation, it put $18 million over 2 years into housing expenditures and a large part of its impulse to do so was because of its perceived need to come up with a match.

Of course, the 1992 money was waived for a match and they've used it for other housing-related purposes. But there was no question in the advocates' minds with whom we worked in Texas that had there not been a goad of Federal requirement, they would have had much less possibility of success.

Vermont, on the other hand, last year, in the midst of its appropriations process, actually reduced the pending appropriation for

its land conservation and housing fund when the match got waived, because a certain amount of money they had set aside for that purpose suddenly became available for some other purpose in the State.

So we do perceive, as Trudy has said, that there is a positive influence, there is a drag that comes along as Federal money requires the match. I couldn't agree with her more that State funds are very important to our people.

I have to say that while we differ on this with local governments, I think we come to the table being advocates for housing, and any device we can use that will increase that pot is something that we think is important to promote. We have seen that the requirement for match has done so and the lack of a maintenance of effort has in some communities led to a diminution in the total spending for housing. So there's no question that this influences the degree to which money is put into housing at the local level.

Senator SARBANES. I would make the observation that the waiver was motivated by the recession and those sorts of economic conditions and the perception that there was no capacity because of the recession to provide the waiver. We wanted to keep the activity moving.

But while we've not recovered well, we are technically out of the recession and it seems to me we can begin to think again of requiring the match, as is of course the case.

Well, then, that leaves us with the final point, which I take it is that it's the implementation of all of this where the focus really needs to be. As Jim Rouse said, we need a new HUD. We need to scrub down those regulations. And then, frankly, I think we need to sort of say to State and local people, the religious community and the nonprofit sector and the for-profit sector, look, here's a framework. It's up to you. You have to go to work.

We're here to try to help, but this is a big partnership effort on the part of a lot of people to make this thing work. And that's where we ought to put the emphasis.

Now one of the things we've done here is we've taken the testimony from the community ahead of hearing from the administration. These statements are very helpful in that regard because it does sort of give us an agenda to focus them on and to call them on, which we intend to do in the weeks and months ahead.

I'm very anxious to get this program working, up and going. And I'm very anxious to get the focus out at the end on the action and on what's being produced. I don't want a lot of people coming in and saying, well, you know, let's kind of change this.

I want to say, look, here it is. Now here are the tools. You take them and go to work with them and do something. And then, I think we ought to point out, look, it's being done pretty well in some places, and it's not being done very well somewhere else.

Why is that? What's the shortcoming? I can't believe that the fiscal situation of the city of Pittsburgh is that much better than the fiscal situation of the city of Philadelphia, that we ought to be addressing giving some sweeping waiver on the HOME program to the city of Philadelphia.

It seems to me that the city of Philadelphia has to sort of marshall itself in order to partake of these programs, particularly when

the State of Pennsylvania can, I take it, play something of a role in this regard.

Mr. SWANSON. If I may, actually, when it was a fair possibility that there was going to be a match requirement, I think of what would have happened in the State if there would have been additional State dollars appropriated for the 60-percent balance of the State that is small town and rural.

Pennsylvania is, I believe, still has the highest rural population in the United States, a contrasting State. The ultimate benefit of that, since I'm from Pittsburgh, obviously, is that I would expect that there's no way that the State would add $10 million to a housing system and dedicate it all for rural areas.

The city of Philadelphia and the city of Pittsburgh, which basically share about 40 percent of the State housing pot, would have in fact increased their absolute dollars as a result of the legislative process that would have unfolded. So I think that you're very right about that and you're also very right about the fact that the city of Pittsburgh is not a lot better off than any other city. It faces a lot of severe fiscal problems.

But I think it goes back to the contrast of the cities, where a city has had a long-term commitment to the system that I talked about and has stayed with that commitment. I think Philadelphia is trying to build that kind of system today. It's had a very different experience in housing and community development over the last 20 years and is now trying to put together a system. That takes time. You can't do it in a year. I'm not sure you can do it in 5 years. It probably takes 10 years of working together and building relationships and some good fortune, too, I think.

Mr. ZIGAS. I do think the issue of patience and fortitude is very important in this regard. Despite the existence of some outstanding leaders in both municipal government and State government, I think the fact is, and this can be equally said, I believe, of the nonprofit sector, despite all of the successes it has had, is that the capacity to do this kind of work is not uniformly spread throughout the country. It will take time to cultivate and mature, and there are going to be bumps in the road and there are going to be misturns.

I think the most important element in this entire mix that should lead to more success is what we all hope will be a much changed environment and attitude on the part of HUD, which instead of being preoccupied with the possibility that some portion of these funds might wind up being spent in a way that they would prefer not to see on the front page of the Washington Post, but that a huge majority of them were spent to benefit low- and moderate-income people, instead will work to create mechanisms and partnerships to do that, will not be so preoccupied with having this "gotcha" mentality that we saw in the last 4 years, with the key issue being to find you out of compliance in something, not to make sure you succeed and to have much more of a conformance of vision about what this is all about, will do wonders for this program.

And I think this issue about technical assistance and capacity building is not a luxury. In committing to this new system, the National Housing Task Force and Congress, in its turn, said, we're going to do something new and different here.

In the past, when the private sector stood to profit greatly from the program, it invested its own capital in technical assistance and training and it spent more money than any of us will ever be able to figure out in doing it. Here, we're asking the public sector to do it and it takes a partnership to invest in that.

Senator SARBANES. Well, thank you all very much. You've been a very helpful panel, and we look forward to continuing to work very closely with you on this issue.

The subcommittee stands adjourned.

[Whereupon, at 12:55 p.m., the subcommittee was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF CAROL MOSELEY-BRAUN

Mr. Chairman, I want to thank you for holding this hearing on the HOME program. As a new member of this subcommittee, it is a particularly important issue for me. I commend the committee for its work on the Cranston-Gonzalez National Affordable Housing Act of 1990, the most meaningful housing legislation in over a decade and the vehicle for this program. I believe when this committee recognized the need to make the necessary changes last year to give local jurisdictions flexibility in implementing HOME funding, this was a step in the right direction. I understand that these changes helped to increase the pace of the HOME program activity. But I also recognize that in order to facilitate more spending of HOME funds, it is our responsibility to consider some fine-tuning of the program.

For this reason, Mr. Chairman, I welcome the opportunity to now participate in this committee's review of the HOME program's progress and its consideration of how we can make livable and affordable housing a reality for more Americans.

I am also very happy to see that this committee has chosen Ms. Diane Voneida from the city of Rockford to tell us how the HOME program has helped my constituency in Illinois' second largest city. In her capacity as director of community development, Ms. Voneida is an outstanding example of a public servant who utilizes Federal, State, and local government programs and works diligently with non-profits to improve the lives of thousands. It has been said on more than one occasion that Diane knows HUD regulations better than most employees in that agency. Mr. Chairman, her efforts have paid off—I am proud to acknowledge that the city of Rockford *is number two in the Nation* in HOME program commitments for 1992. I look forward to hearing how these funds have been used to help first-time home owners achieve the American dream and others improve their living conditions.

I also hope that Diane and the other distinguished members of the panels will also share with the committee their insights on what can be done to facilitate spending of the HOME funds—thru legislative or regulatory changes to the program or other policy changes. Thank you, Mr. Chairman.

STATEMENT OF JAMES W. ROUSE AND DAVID O. MAXWELL

APRIL 27, 1993

A decent place for a family to live becomes a platform for dignity and self-respect and a base for hope and improvement. A decent home allows people to take advantage of opportunities in education, health and employment—the means to get ahead in our society. A decent home is the important beginning point for growth into the mainstream of American life.

National Housing Task Force Report,
"A Decent Place to Live"—1988

Mr. Chairman, Senator Bond, and members of the subcommittee, thank you for the opportunity to reflect on the recommendations made by the National Housing Task Force. We are here today as individuals to comment on our own views with respect to national housing policy.

The National Housing Task Force yielded some important answers to this critical issue of our lifetime—decent affordable homes and neighborhoods for all Americans—and set out a plan to accomplish it within a decade. The Task Force's recommendations are as relevant today as when they were issued five years ago. Circumstances have changed the urgency and nature of some recommendations, but not their direction. A review of its recommendations reinforces, we believe, the pragmatic vision that the Task Force put forth in 1988.

To set the stage for that discussion, we would like to share with you our observations of the conditions of poverty and hopelessness in hundreds of American cities, towns, and rural areas.

An intensive examination of those compelling conditions led the Task Force to its important conclusions.

Daily life in America's distressed urban neighborhoods and rural communities is a chaotic landscape scarred by persistently spreading poverty and violence:

- More people live in poverty today than 20 years ago, some 34 million Americans. The number of children in America living in poverty—one in five—is the highest child poverty rate of any industrialized nation.
- Fewer homes exist for low-income families, a decline of 41 percent since the late 1970's in dwellings renting for $250 per month or less—a shortage of 4.1 million units. It is a simple equation: Millions more people needing housing at lower rents—less housing available—increases in rents beyond ability to pay—eviction.

- More homeless—mothers and children are looking for places to sleep, living like stray animals. According to the National Academy of Sciences, 100,000 children are on the streets or in shelters each night.
- More school dropouts—as high as 30 to 40 percent in city schools. Nearly half of these young people reach adulthood unqualified for work—tomorrow's jobless, homeless, hopeless.
- More babies are drug-addicted at birth.
- The *New York Times* reports that the United States has more people in jail per 100,000 than any other country in the world:

 —United States 455 of each 100,000 people in jail
 —South Africa 333 of each 100,000 people in jail
 —China 111 of each 100,000 people in jail
 —Japan 45 of each 100,000 people in jail

 In New York State, it costs $75,000 to $100,000 to build a new jail cell, plus $30,000 per year to maintain the inmate there.
- We are the world's most violent nation. Great Britain and Germany recently issued travel advisories to their citizens visiting Florida, citing violent crime in our urban areas. In Texas and Louisiana, gun fatalities have surpassed traffic fatalities. Deaths by firearms now exceed deaths from natural causes among young men age 15–24. Gun injuries cost $4 billion per year, roughly half paid by taxpayer expense, according to the Coalition to Stop Gun Violence.
- **The cost of these conditions was estimated by the Bush White House at over $750 billion per year.**

And so it goes.

☆ Challenging our competitive production capacity as a Nation.
☆ Imposing a huge financial burden on government at all levels.
☆ Demands for security creating a barricaded society of "us" versus "them."
☆ Alienation of millions of Americans—who are living helpless, hopeless lives—feeling no stake in our country.
☆ Tinder for a radical torch, witness Los Angeles and other disturbances last year.

Visitors from Europe and Asia are appalled when exposed to the way the poor live in our country.

The people of this country, for the most part—leaders in public life, in business, banking, government, the managers of our wealth and our institutions—do not know how millions and millions of people in our country live. We think we do. We read the dismal figures, see pictures of dilapidated housing in derelict neighborhoods. But most of us have not walked those streets, stepped inside those houses; have not seen good people with clean, decent families huddled in miserable housing, paying outrageous rents; have not looked into the saddened sullen faces; felt the hopelessness, the distrust, suspicion, and separation that pervades their lives and all around them.

The basic institutions for supporting the lives of children, adults, and families upon which we all depend in our country have fallen apart in neighborhoods at the bottom of our society. Systems are overwhelmed, difficult to access, encourage dependency, and no longer coping. Housing, health care, family support, and employment are all fragmented and dysfunctional. Schools don't educate; health care does not reach the poor; job systems don't reach the jobless. Drugs become rampant; crime and violence everywhere; streets are battlegrounds where murder or stray bullets take lives in warfare numbers. The daily headlines tell us this.

These are the breeding grounds for a new America that we do not want to face—an impoverished, suffering, hopeless, hostile people living in violence and fear. It threatens our stability—threatens our survival as a civilized nation.

But there is a huge gap in America between those conditions and the state of mind of our country.

There is massive indifference among us to the persistent spread of poverty—to its suffering and injustice. It is as if we don't face these conditions because we think we can't—that it is all too immense, too complex, too costly to be confronted.

We must change this state of mind in order to change America. We must demonstrate that these conditions can be transformed, that poor people in America can live decent lives in decent neighborhoods. *And, that it will cost less for our people to live in healthy neighborhoods than in sick and painful ones.*

The National Housing Task Force: Charting A New Direction

We were asked in 1987 by Senators Cranston and D'Amato to form and lead a nonpartisan task force as part of congressional efforts to reexamine our country's housing policy. We recruited a talented and experienced group of 26 men and women drawn from all facets of the housing industry—business, banking, community service, and state and local government—who worked tirelessly, earnestly over the course of six months to produce a report that was warmly greeted in March 1988.

The Task Force was assisted in its work by more than 70 position papers from business and professional organizations, a series of 20 special studies prepared by scholars and practitioners under the direction of Professors Langley Keyes and Denise DiPasquale of the Massachusetts Institute of Technology, and numerous specialists who shared their time and expertise with the Task Force. Our work was also aided by review and comments from the special 40-member National Housing Policy Advisory Panel co-chaired by Leland Brendsel, president and CEO of Freddie Mac, and Ira Gribin, then president of the National Association of Realtors. For the record, we offer a list of the Task Force and Advisory Panel members.

As the Task Force explored the conditions and searched for answers, all members agreed that we could not tolerate the suffering to which more and more of our people were being consigned and that as a nation, we must find solutions. We issued a Call to Action in the Task Force's Report, A Decent Place to Live:

> *The time has come to raise these conditions to a compelling level of concern to the highest priority of attention and commitment—not just federal government but of state and local governments, for-profit and nonprofit housing developers, businesses, religious institutions, civic groups, and individuals. Housing must not be a partisan issue; it transcends party or faction. This must be a true national program. We must halt the spread of a separated culture, both urban and rural before continuing deterioration results in severe, and potentially unresolved, frustration and division.*

But the Task Force went beyond merely resolving that these conditions were intolerable. It challenged the nation to match its vast resources with its deep concern for the well-being of our people and solve America's acute housing needs. *We determined that this, the wealthiest nation in the world, with its superlative problem-solving capacity, could achieve the goal of a fit, livable and affordable home for all Americans by the year 2000.*

Toward this goal, nothing less than a new comprehensive national housing policy accommodating a diversity of needs and advancing new partnerships, new institutions to implement creative solutions could do the job, the Task Force reasoned. To guide the development of its recommendations, the Task Force adopted three key principles:

First, *the country's moist pressing housing problems*—the shortage of housing for low-income renters, the plight of homeless people, and the travails of first-time homebuyers—*represented a continuum of cause and effect.* Two major factors were found common to that process: 1) escalating housing costs, and 2) the failure of American incomes to keep pace with those increases. The inevitable result was that renters frustrated in becoming homeowners roadblocked the move-up for renters further down the income scale. That progression slid down along the income chain to public housing, where an estimated one million families filled the waiting lists, to the destitute life on the streets for society's homeless. The Task Force concluded that legislation must deal with the whole range of problems through a unified set of solutions.

Second, the Task Force found *the federal government to be an indispensable partner in promoting affordable housing.* The Task Force called for a reinvigorated federal government to work in a collaborative partnership with state and local governments and the private sector. The Task Force saw the federal role as one of mobilizing and leveraging state, local, and private resources aimed at dramatically improving housing conditions over the coming decade.

Third, the Task Force found that *the most effective approach would be for federal resources to serve as a catalyst for the "new wave" of local initiatives* springing up across the country. New institutions and new ways of creating low-income housing were being forged by state and local governments drawing in all possible partners—community groups, local and national nonprofits, developers, builders, investors, and lenders. The Task Force believed that a capable and innovative low-income housing delivery system could be greatly expanded if cohesively linked with federal resources.

This last principle embodied the Task Force's fundamental view that *the government closest to the people is best situated to identify and respond to local housing markets and needs.* Ultimately, these findings prompted the Task Force to conceptualize the Housing Opportunities Program (HOP) as the primary production mechanism for expanding the supply of low-income housing. Rather than adding to the panoply of categorical federal housing programs, federal funds would be provided in a flexible way to optimally leverage the promising potential exhibited by the "new wave" initiatives.

During six-month period of intensive study and discussion, the principles guided the Task Force in developing its comprehensive blueprint that would serve as the backbone for legislation to follow. Its report, *A Decent Place to Live,* extended well beyond conventional prescriptions for federal housing policy, calling for a major role for state and local governments and for a burgeoning network of nonprofit housing producers and their private sector partners.

By combining and balancing different forms of public investment, the Task Force formulated a plan for an improved delivery system capable of increasing the supply of new low-income housing, preserving existing stock, and providing rental assistance to low-income households. The essential elements of this framework were:

- **A New Delivery System for Affordable Housing.** The blueprint's centerpiece, the new Housing Opportunities Program (HOP, which evolved into the HOME Investment Partnerships Program), would foster and stimulate state and local initiatives to develop, renovate, and conserve low-income housing. Conceived as *the primary federal vehicle for channeling new federal housing production funds,* the Task Force called for a $3 billion HOP/HOME program on an on-going basis to be partially matched by states and localities. Beyond a minimum 10 percent set-aside to nurture low-income housing developed by nonprofits, HOP/HOME could be accessed by public agencies, private developers, nonprofits, and others. Other than the nonprofit set-aside, income targeting to the neediest based on locally identified priorities, and performance standards, communities were to have *maximum flexibility and minimum federal regulation* in tailoring strategies to address locally identified needs.
- **New Sources of Capital and a New Institution for Low-Income Housing.** The Task Force recommended that the federal government support a variety of new, promising institutions, including community development banks and benevolent loan funds.
- **The Nation's Existing Low-Income Housing Stock.** The Task Force deferred to two high-level task forces undertaking their own intensive examinations of maintaining the supply of existing federally assisted housing. The Task Force outlined the scope of the problem, noting that a near-term federal response would be needed for renewal of project-based and tenant-based subsidy contracts for an estimated one million units. To avert a crisis in future years would require a strategy to retain the inventory that would become eligible for pre-payment over the coming decade. The Task Force anticipated that direct assistance and a preservation-oriented tax policy would be needed for state and local governments, private owners, residents, and nonprofits. A more insidious problem was also identified by the Task Force: maintaining the supply of millions of privately-owned, unsubsidized dwellings that the vast majority of poor people call home. For this stock, the Task Force recommended that HOP/HOME funds be an important tool.
- **Public Housing.** The Task Force called for the federal government to improve public housing by targeting the worst projects for immediate action and investing in a long-term program to renovate this valuable inventory. Resident management and selected conversions to home ownership were encouraged.
- **Tax Policy and Low-Income Housing.** The tax code's overwhelming role in housing policy was given serious attention by the Task Force. It was very clear to the Task Force that housing tax policy on the whole, confers far greater benefits on primarily wealthier homeowners than on poorer renters, whose incomes were generally half or less of homeowners. The Task Force sought to achieve greater equity in the tax code to meet the needs of low-income renters with a number of recommendations, including permanent extension and improvements to the Low Income Housing Tax Credit and expanded availability of Mortgage Revenue Bonds (MRBs) for low-income rental housing. The Task Force also anticipated that the HOP/HOME program could not achieve its objectives to add to the supply of low-income rental housing without some degree of favorable tax treatment and recommended that penalties be removed on the use of the Tax Credit with other federal assistance programs. Regardless of what other form of assistance is used, the Task Force reasoned, allocating agencies should have the authority to provide Tax Credits to a project in the maximum permissible amount.

- **The Gap Between Housing Costs and Income.** The Task Force recommended that Congress commit to providing sufficient rental assistance so that by the end of the century, in combination with an increased supply of affordable housing, no household seeking fit, livable and affordable housing would lack the opportunity to obtain it. An incremental increase to 200,000 households per year was recommended to achieve this goal by the year 2000, accelerating what would otherwise take nearly 50 years to accomplish at then current levels of assistance.
- **Homeownership.** A series of low-cost measures to expand opportunities for homeownership were suggested. Mindful of the substantial preference already given to homeownership through tax policy and mortgage credit, the Task Force suggested that mechanisms should focus primarily on first-time buyers, especially those of low- and moderate-incomes. These mechanisms included improved access to FHA and VA mortgage insurance and use of IRA's and other self-funded benefit plan monies for downpayments. The potential of employer-assisted housing and provision of housing as an employee benefit were suggested for further examination. States and localities were encouraged to actively explore means of reducing regulatory constraints on the production of affordable housing. The Task Force urged the use of HOP/HOME and existing programs for targeting to low-income buyers.
- **The Housing Finance System.** The Task Force found that the basic federal housing finance system had evolved into an efficient mechanism for linking the mortgage market with domestic and international capital markets, keeping mortgage rates as low as possible. Insured thrift institutions originated 40 percent of all home mortgages in 1987, operating alongside the government-insured FHA/VA market. In the secondary market, the Government National Mortgage Association (GNMA) guaranteed timely payment of principal and interest on FHA and VA loans. [When the Task Force conducted its work, the study of FHA's safety and soundness had not been undertaken, and the federal government had not retreated from the multifamily co-insurance program.]

 In the conventional market, Fannie Mae and Freddie Mac, chartered by the federal government but operating as private corporations, purchased mortgage loans to replenish the funds of primary lenders and guarantee payments on mortgage-backed securities. Fannie Mae and Freddie Mac, both actively engaged in the single-family market, were seeking to do more in the affordable housing arena, especially multifamily housing. To augment the housing finance system, the Task Force recommended that federal financial regulatory agencies look more readily to the Community Reinvestment Act (CRA) to encourage financial institutions to make economically sound investments in low-income housing and community development. A combination of improved CRA compliance reviews and incentives for good performance, as well as evaluating actual lending performance against community credit needs was recommended.
- **Fair Housing.** The Task Force called on the federal government to renew its commitment to enforcing laws that ban discrimination in housing, finding that minorities still faced persistent and pervasive discrimination in their efforts to secure satisfactory housing. Funding for private fair housing groups to carry out testing and enforcement actions, prohibiting discrimination against families, and increased judicial and federal agency enforcement of fair housing laws were recommended. HOP/HOME, in combination with increased rental assistance, was viewed as a means to promote housing opportunities for minorities. State and local strategies describing the use of HOP/HOME funds would be required to include measures to combat housing discrimination and provide expanded housing opportunities.
- **Housing in Rural America.** The Task Force found that the Farmers Home Administration (FmHA) administers a variety of housing programs uniquely suited to rural needs. Programs in place would be used, consistent with budget priorities, along with a proportionate share of HOP/HOME funds to be allocated to non-metropolitan areas. Capacity-building of rural nonprofit development organizations was encouraged. The Task Force also recognized the effectiveness of the FmHA 502 program in addressing rural homeownership and rehabilitation needs, urged its continuation, and recommended that nonprofits and public agencies be permitted to carry out homeownership activities under the program. The Task Force recommended that a greater emphasis be placed on housing migrant farm workers directly through the FmHA network and encouraged state participation. The pressing needs of American Indians and Alaskan natives called for greater access to HUD and FmHA mortgage credit, increased direct subsidies, and use of HOP/HOME funds, the Task Force said.

But having articulated this comprehensive approach for a new direction in housing policy, the Task Force said that *two problems could not wait: Homelessness and "Domestic Terrorism."*

- **The Homeless.** Clearly homelessness had many dimensions and varied widely from city to city, but the Task Force found that the recently passed McKinney Homeless Assistance program was too limited in scope and categorical in approach given the breadth of homeless needs. The Task Force recommended expanded funding and stepped-up implementation that could involve a variety of immediate and long-term strategies. Believing that solutions were best designed at the local level, the Task Force urged Congress to fund local coalitions formed to combat and alleviate homelessness so that in developing and carrying out housing programs, these providers could create a comprehensive system including emergency assistance, job counseling, and social services.
- **"Domestic Terrorism."** While acknowledging that recommending solutions to the violence, lawlessness, and drug-related activity wracking urban neighborhoods was generally beyond its charter and competence, the Task Force discussed the issue at length. Concluding that there is no greater priority than ensuring a safe and decent environment in which our people live and our children grow up, the Task Force urged that the nation be united in a massive drive to eliminate what it dubbed "domestic terrorism." To the extent that these conditions existed in public housing projects, the Task Force recommended immediate HUD management takeovers. The Task Force also called for a national task force charged with developing a comprehensive plan of attack on domestic terrorism and swift legislative action to implement it.

The National Housing Task Force, having reached unanimity in its recommendations, issued its report to Congress in March 1988, and it was warmly received. The first comprehensive look at housing in America in years, A Decent Place to Live was the blueprint for a far reaching overhaul of national housing policy. Acknowledging that indisputable progress had been made, the Task Force left no uncertainties about the challenges that remained in fulfilling the "promise of a decent home and a suitable living environment" previously set forth in the Housing Act of 1949. Its report completed, the Task Force adjourned.

The National Affordable Housing Act: A New Framework

> *It is my sincere hope to return to this committee [Senate Subcommittee on Housing and Urban Affairs] within a few years and report to you that the structure conceived by The National Affordable Housing Act is working and that initial steps have been taken to house all Americans. Some may tell us that this is an impractical vision. I think not. For if we hold up images of what ought to be, we can reach beyond the critical conditions in our society today. And the solutions put forth in this landmark legislation can be the initiative for a new housing delivery system for tee nation.*
>
> James W. Rouse, April 20, 1989

In the five years since the National Housing Task Force issued its seminal work, much progress has been made in establishing a new framework for the nation's housing delivery system based on the premises of *A Decent Place to Live.* Clearly, Congress and the nation heeded the Task Force's call to action, and the debate turned, not to whether something should be done about the housing and homeless crisis, but how it would be addressed.

With that impasse broken, the passage of The Cranston-Gonzalez National Affordable Housing Act of 1990, reaffirmed the vital role of the federal government in providing the opportunity for a decent home and suitable living environment for all Americans. This landmark legislation, the most sweeping-housing bill in more than a decade, established the foundation for the new housing delivery system:

- The HOME Investment Partnerships Program, modeled after the HOP concept advanced by the Task Force, was enacted. It established a new, primary federal production vehicle designed to fill the "financing gap" with flexible funds. HOME radically departed from the traditional top-down, centrally driven categorical approach. Instead, federal funds would flow from a needs-based formula to states and local governments to partially match the funds and carry out locally-designed housing strategies. HOME's minimum 15 percent set-aside for Community Housing Development Organizations (CHDO's) would fuel the role of nonprofits and expand their production capacity.
- Solutions for preserving the dwindling stock of low-rent housing were put in place, and a meaningful role for nonprofits and residents established.

- Homeownership opportunities for low-income people were affirmed in the HOPE and HOME programs and for moderate-income people in a new National Homeownership Trust.
- Successful existing programs, like Community Development Block Grants (CDBG) and Section 8 rental assistance were continued and authorized for funding increases. Additionally, CDBG was further targeted to low-income people.
- The key Public and Indian housing programs were reauthorized, management reforms enacted, and a new supportive services program for families with children created.
- Rural housing programs were strengthened, increased funding authorized, underserved areas addressed, and nonprofit participation enhanced.
- Supportive housing for the elderly, homeless, mentally ill, persons with AIDS, and others with special needs were expanded through a series of initiatives. The groundwork was laid for consolidating several McKinney homeless programs to allow local providers to carry out more comprehensive approaches.
- To receive federal housing assistance, states and localities would be required to develop 5-year comprehensive housing affordability strategies (CHAS's) identifying local needs and setting forth how they would use their own resources, improve policies, invest federal assistance, and leverage private investment to expand the supply of affordable housing.

Indeed, The National Affordable Housing Act comprehensively embraced the spirit and many of the proposals that the Task Force had advanced. But critical issues remained, and the framework for a new national housing policy went forth as a work in progress.

A Decent Place to Live: Revisited

In 1992, The National Affordable Housing Act programs, including HOME and CDBG, were due to expire. The progress made in establishing the framework was in serious jeopardy as the frank wisdom of the Task Force had been ignored in many instances. The HOME program, mired in a less than perfect legislative framework and a regulatory morass, needed the roadblocks removed. Also looming was the annual wrangle over extending the Low Income Housing Tax Credit, supplying 120,000 low-income units per year, and considered a crucial source of equity financing to be coupled with funds for deeply targeted HOME projects.

The eruption of violence in Los Angeles and other American cities in early 1992, was yet another signal of prevalent frustration, despair, and hopelessness.

Ironically, Congress and the White House were inert, gridlocked over a proper response to urban problems.

Believing that the time was ripe for a reexamination of the need for affordable housing in America and its role in supporting healthy communities, The Enterprise Foundation thoughtfully assessed the progress made in the nearly five years that had elapsed since the Task Force had issued its report. Enterprise documented both hopeful and disturbing trends in its report, *A Decent Place to Live: Revisited.*

The good news that Enterprise reported was that the blueprint in place was a good one, based on sound principles. But its extension, refinement, and funding were critical to achieving a forceful policy for the 1990's, especially if the full potential of the nonprofit development system was to be achieved, as the Task Force had predicted it could. Indeed, it gave every sign of readiness to become a major force for delivering affordable housing and rebuilding communities:

- From Appalachia to Watts, in all 50 states, as many as 5,000 organizations nationwide had built and renovated hundreds of thousands of homes for low-income people. They were accomplishing lasting change in some of our country's poorest communities.
- By 1992, groups comprising the nonprofit delivery system had become prime packagers of the Low Income Housing Tax Credit. A program with a short, but successful track record, the Tax Credit was presenting an additional body of evidence that nonprofits were efficient, capable users. Overall, nonprofit usage in 1991 was 14 percent of Tax Credits nationwide, exceeding the program's required 10 percent minimum set-aside. In some states, the percent allocated to nonprofits greatly exceeded the average, as in Rhode Island (51 percent) and Vermont (79 percent). In Connecticut, Illinois, North Carolina, and Pennsylvania, over 25 percent was awarded to nonprofits.
- Nonprofit development groups were also working toward generating multifamily housing loans that would require a sophisticated "secondary market."
- New experiments were underway by nonprofit groups to link housing for the poor with social services and other vital community-building activities.

- Local nonprofit groups were actively engaged in gearing up for the HOME program.

Other news was bleak. *Revisited* reported the growing frustration Americans felt by the apparent lack of progress in crucial areas:

- continued homelessness,
- violence in American cities,

The two "Problems That Can't Wait," pinpointed in 1988 by the Task Force, were unresolved . . . and worsening. All the while, the gap between low-income housing needs and federal funding widened.

The evidence was incontrovertible:

Homelessness. *Revisited* chronicled that, in 1988, Americans were shocked and embarrassed by the site of people huddled on grates, of families living under bridges, and of men, women, and children wrapped in cardboard boxes. Volunteers poured into shelters and soup kitchens; Americans called on their elected representatives to do something. But the problem was unabated. An estimated 600,000 Americans were homeless on any given night and 1.2 million over the course of the year, according the Urban Institute, whose measure is considered among the most objective. The headline of a 1988 *Washington Post* article, "A Steady Job But No Home," signaled a growing trend of entire families becoming homeless. By 1992, many Americans were frustrated, *Revisited* noted, at the apparent lack in reducing homelessness. Some Americans had become hostile and resentful, blaming the homeless and the poor for their condition, as reflected in growing efforts to restrict panhandling, neighborhood opposition to siting of homeless shelters, and cuts in welfare and other public aid programs.

Violence. *Revisited* observed that conditions in many communities were both quantitatively and qualitatively worse than in the 1980's when the Task Force had expressed its concerns about what constituted "domestic terrorism." **By 1992, it was devastating . . .**

- Increasingly dangerous and cut off from mainstream society, residents were alienated and dispirited. The media routinely relayed stories of children shot on their way to school, of escalating murder rates, and drug-addicted babies abandoned in inner-city hospitals.
- Health conditions in some urban neighborhoods had deteriorated to the point where officials from the Center for Disease Control began comparing them to conditions in Third World countries. Diseases once thought to be largely eradicated—tuberculosis, polio, measles, and hepatitis—were reappearing, and AIDS was exacting a terrible toll.
- "Crack" was not even a household word in 1988, and the violence of the drug culture had accelerated into skyrocketing murder rates and gang wars.
- Problems once thought to be confined to big city ghettos—homelessness, joblessness, drugs, crime—had made their way into smaller cities and towns.

A Widening Gap: Need Versus Funding. Not only were homelessness and violence engulfing communities, but most of the crushing problems examined by the Task Force showed no let up in the five years that had elapsed. The dimensions of income and housing affordability were, in fact, worsening, exacerbated by a deepening economic recession. Two million more people had slipped into poverty. By 1989, the latest year for which figures were available, two-thirds of all poverty level rental households who were poor enough to qualify for federal aid received no government housing assistance to help them meet high rent burdens. The supply of inexpensive rental housing had continued to shrink. The continuum of needs that the Task Force had identified was exponentially rising.

Nonetheless, the federal response was to further widen the chasm between needs and funding. The federal housing budget authority had been more severely cut than any other domestic program, falling to less than one percent of a total $1.3 trillion federal budget. Appropriations for HUD subsidized housing programs fell by 80 percent (inflation adjusted) between 1978 and 1991, and FmHA rural housing programs also dropped sharply, down by 72 percent.

At these levels of assistance, it would take three or four generations, over 60 years, just to address the current "worst case" housing needs.

Housing advocates were told point blank that resources to more fully meet these needs were constrained by towering budget deficits, while policy-makers made deliberate choices to steer resources elsewhere. Defense spending was greatly increased in the 1980's. More than $125 billion was dedicated to shoring up the savings and loan industry. The tax code continued its course of inequity favoring primarily wealthier homeowners with billions of dollars of tax write-offs, versus the fraction made available for far needier low-income people, especially renters.

The straightforward recommendations of the *Revisited* report mirrored the agenda that had been forth by the Task Force, and urged swift action on unfinished tasks:

1. Adjust government spending priorities to meet the realities of housing needs in America.

2. Extend federal housing assistance to more unserved households.

3. Expand the rehabilitation and construction of housing targeted for low-income people.

4. Link housing and other support efforts for the poor.

5. Commit to building the strength of the nonprofit housing movement.

6. Review the system of housing subsidies that is neither fair nor equitable.

7. Promote public-private financing partnerships to produce affordable housing.

Revisited was credited with refocusing attention on critical housing needs and its role in rebuilding distressed communities. The policy gridlock broken through, Congress passed and President Bush signed into law The Housing and Community Development Act of 1992 in October. The two-year $49.7 billion measure reauthorized the range of housing and community development programs. It also achieved further enactment of the Task Force's original recommendations and made some refinements reflecting emerging issues, including:

- **Restoring Flexibility to the HOME Investment Partnerships Program.** When the HOME program was enacted in 1990 and regulations first issued by HUD in December 1991, it was very clear that much of its flexibility had been severely undermined. The program was stalled. HOME's start-up was further undermined as Congress appropriated $1 billion for fiscal 1993, a huge cut from its fiscal 1992 level of $1.5 billion. Some saw this as a sign that support for the program was waning. Rather, it reflected the growing frustration that some of HOME's features, many inflicted by overzealous regulation, were so rigid that it was rendered unworkable in meeting certain priority housing needs:

 ☆ New construction was severely penalized.

 ☆ Technical barriers had been constructed to prevent the use of HOME with the Low Income Tax Credit.

 ☆ Per unit cost limits undermined using HOME to fill the gap where sufficient financing was lacking, typically the higher costs associated with new construction.

 ☆ Narrow readings of the match requirements negated counting the "sweat equity" that hopeful low-income buyers were willing to invest.

Mayors, governors, nonprofit developers, and community organizations, who all knew their local needs and housing markets best, offered their solutions on how to make HOME work in their communities. It was an earnest effort to get the program launched, not a call to scrap it. The voices speaking on these issues were those of people on the front lines dealing every day with the conditions ravaging their communities—growing homelessness, substandard housing, and deteriorating neighborhoods. They not only cared, they knew HOME could work if freed up. Congress responded. The suggestions were constructive, and reflected much of the flexibility intended by Congress and that had been considered paramount by the Task Force. Among the key amendments adopted in 1992:

- HOME could now work with the Low Income Housing Tax Credit to achieve deep income targeting and long-term affordable use for multifamily rental projects.
- Bias in undertaking new construction activities was largely removed, leaving the discretion with localities in ascertaining its appropriateness given local housing needs and markets.
- Per unit cost limitations, that had diminished HOME's effectiveness in providing "gap financing," were raised.
- The HOME match requirements, which had been waived in fiscal 1992, were significantly revised for fiscal 1993. Although the Task Force had recommended a flat match, a complicated three-tiered scheme had been adopted in 1990 as part of a bipartisan compromise. In 1992, the match was lowered, and restructured as a two-tiered 25 percent match for rehabilitation and a 30 percent match for new construction, previously penalized at 50 percent. Sweat equity and in-kind donations were clarified as eligible match, and a portion of public debt was added to the eligible match sources. Criteria for fiscally or economically distressed communities were developed to provide up to 100 percent match waivers.
- Up to ten percent of HOME funds were authorized for administrative expenses of cash-strapped state and local governments running the program.
- Finally, a series of improvements enhanced capacity-building needs of nonprofits, known as Community Housing Development Organizations (CHDO's), by provid-

ing a source of operating funds, up to five percent of total HOME funds. Rules for accessing HOME funds were eased to better serve the spectrum of CHDO's needing training and technical assistance.

On other fronts, Congress adopted a number of initiatives in the 1992 housing bill enhancing the housing delivery system's effectiveness, including:

Expanding the Secondary Market Role in Affordable Housing. Passed as part of the 1992 housing bill, the Government-Sponsored Enterprise (GSE) legislation established new regulatory measures for Fannie Mae and Freddie Mac. Importantly for low-income housing, it anticipated an expanded role for Fannie Mae and Freddie Mac to serve the housing finance needs of low-income families and those living in central cities and other credit-starved areas. These were considered crucial priorities if the secondary market were to be fully utilized in furtherance of stepped-up production induced by HOME and other programs adding to the supply of affordable housing. A new special affordable housing goal was set for each entity that contained deeply targeted income and increased volume requirements, estimated to generate $2 billion annually. The special affordable housing goals were set for both single-family and multifamily needs, in the hope that it would induce Freddie Mac to step-up its plans to re-enter the multifamily arena.

Addressing the Distressed Public Housing Stock. Congress authorized, and provided $300 million in funding, for a new program to revitalize the most distressed public housing developments and involve residents and community groups in comprehensive planning, major reconstruction, supportive services and economic development activities. Additionally, HUD was given additional resources and powers to reform, and if necessary, to take over the worst public housing agencies.

Restoring Balance in the FHA Program. The single-family loan limit was increased because many first-time buyers were locked out due to the higher median home prices found in metropolitan areas. The multifamily insurance limits were raised for high cost areas. Congress also repealed HUD's so-called 57½ percent rule that had limited FHA financing of closing costs and penalized lower income buyers. In combination, these amendments strived to serve the needs of lower income buyers without undermining the actuarial soundness of the FHA fund. Two FHA multifamily demonstrations enacted in 1992 were a congressional response to HUD's shut-down of reinsurance. The demonstrations were designed to test different types of credit enhancement, including risk-sharing with qualified housing finance agencies.

Seeking an End to Childhood Lead Poisoning. Lead poisoning poses grave dangers to children, and had been recently identified by the Center for Disease Control as the number one environmental health hazard to children. An interdisciplinary approach was adopted to reduce and eliminate lead-based paint hazards in private and assisted housing where children are at extreme risk of lead poisoning. The public health field, housing professionals, technicians, nonprofits, and others coalesced to craft The Residential Lead Hazard Reduction Act providing an intensive program of grants to states and localities in abating lead paint and for research and evaluation of treatment regimes.

Additional measures adopted in the 1992 housing act dealt with other serious issues, including the mixing of elderly persons with persons with mental illnesses, addressed overzealous subsidy layering review procedures at HUD that were stalling low-income production, made nonprofits directly eligible for McKinney Section 8 Single Room Occupancy (SRO) funds, and consolidated several McKinney programs. On other legislative fronts, the 1989 savings and loan bail out bill had yielded a new Affordable Housing Program providing access to low-cost financing and foreclosed inventory and stepped-up Community Reinvestment Act (CRA) enforcement.

A Sound Framework: Remaining Issues

By 1992, the framework envisioned by the Task Force was largely legislated. But some critical exceptions lingered, and will require strong leadership in the Congress and the Administration:

- Full and balanced funding
- Greater equity in the tax code
- Eliminating mortgage lending discrimination
- Rebuilding the multifamily housing finance system
- Unleashing the HOME Program's potential

Additionally, we strongly believe that the existence of violence, poverty, and devastating conditions observed by the Task Force in 1988 has become so entrenched that it will require a long-term strategy and a sustained level of reinvestment to totally transform the conditions in our society.

Each of these proposals follows in detail.

Full and Balanced Funding

Federal housing funds are far below needed levels of assistance.

While housing needs expanded over the last twelve years, low-income housing appropriations were cut 80 percent during the previous two Administrations. Under the vigorous leadership of VA, HUD, Independent Agencies Subcommittee Chair Barbara Mikulski and strong housing supporters in the House, that landslide was stemmed in recent years. Nonetheless, federal outlays on low-income housing assistance programs totaled an estimated $19 billion in fiscal 1992 out of total outlays of $1.3 trillion, only slightly more than one percent of the federal budget—a single penny of each federal dollar.

Even if, as a sensible beginning, The National Affordable Housing Act programs, as amended in 1992, were fully funded, federal funding for low-income housing would still hover at about one percent of the total $1.5 billion national budget.

Certainly, we will be told that larger forces of the budget deficit and national economic recovery will constrain availability of resources to address even a domestic need as crucial as low-income housing. As priorities are reordered, competition will be fierce for emerging resources. The temptation will be great to find easy answers.

Low-income housing is a crucial answer to solving the deepening problems of our society. Children and families need decent, affordable homes in which to shelter themselves from the elements and a context in which to nurture their values. A child living in a decent home arrives at school eager to learn. The veteran living in a decent, affordable home does not knock at the door of public health care suffering from the ill effects of living in a cardboard box under a bridge. A decent affordable home is an ounce of prevention compared to the costs of housing a disillusioned young person in prison or the suffering and costs of keeping a crack-addicted baby on life support.

Housing is the essential *platform,* the entry point for dignity and respect, a base for a hopeful and improved life. We must marshall our political will to establish this platform for every American who needs it.

Let us tell you why any answer must strike a healthy balance toward meeting both affordability and an expanded supply of affordable housing.

A growing number of Americans are homeless or paying burdensome amounts of small incomes for substandard housing. Today, the nation's 9.6 million poorest renter households are competing for a supply of what has now dwindled to only 5.5 million affordable units, *a shortage of 4.1 million units.*

The federal Department of Housing & Urban Development estimates that **over 5 million households with incomes below 50 percent of area median are paying more than half their income for rent, live in substandard housing, or both.**

Only a third of all poor renter households receive any federal or state housing assistance. For the two-thirds who receive no rental assistance, the recession brought some temporary improvement in affordability, but housing costs as a share of income remained high by historical standards, according to the Joint Center for Housing Studies at Harvard University. The Harvard analysts found that weak real estate markets offered little relief for the nation's poor renter, or the hopeful low-income homebuyer, and that they faced the prospect of rising housing prices as the economy rights itself.

If affordability were the only measurement of low-income housing needs, the solution would be more straightforward. But, unfortunately, it is not our sole challenge, and **the supply of low-cost, decent housing is extremely deficient.**

The Joint Center calculates that 3.8 million unsubsidized renters—whose incomes are half that of typical homeowners—lived in units classified as structurally inadequate in 1989. Furthermore, among unsubsidized *poor* renter households, 1.1 million live in structurally inadequate units. Often, these units are located in small buildings owned by "mom and pop" landlords who do not respond well to big governmental programs with red tape. As the Task Force noted, it is often impossible to renovate these units and maintain them for low-income use because poor renters cannot afford increased rents to cover the costs involved. Even if the tenant were given a Section 8 certificate or voucher, the landlord would find that:

- The increased rents to cover repairs could not be recouped under the Fair Market Rents, or even private market rents, prevailing in many areas.
- No lender would underwrite a repair loan on the basis of the tenant's rental assistance—which goes with the tenant if the tenant moves.

Those are the conditions and some of the issues defining the nature of the low-income inventory today. If we peer into the future, it becomes apparent that increasing the supply of low-income housing is a priority *today* that cannot wait until the 21st Century:

- Housing analyst Phillip Clay of the Massachusetts Institute of Technology suggested that if present patterns of supply and demand persist, 18.7 million people would be unable to find housing they could afford by the year 2003. It simply won't exist.
- The Joint Center for Housing Studies of Harvard University reports that today's level of multifamily starts is well below that required to accommodate even the modest projected increases in renter households—let alone allow for replacement of units demolished or otherwise removed from the inventory.

This is the paradox in current HUD funding:

☆ The overall funding level belies the reality of needs, now and for the foreseeable future; and

☆ Its mix does not logically nor fairly address the continuum of housing needs that the Task Force identified. The lion's share, each four of five dollars, must now be dedicated just to maintaining affordability and current commitments.

Four out of five dollars simply to stay in place is not a replacement for a comprehensive national housing policy. There are choices here, the status quo not being one if we are to address the continuum of the country's affordable housing needs. To be effective, a resource allocation scheme must:

- Significantly increase overall federal budget dollars dedicated to low-income housing needs, and
- Balance funding for affordability and supply relative to needs.

Toward this rationale, Congress and the President should fully fund The National Affordable Housing Act programs, as amended. The legislation offers a comprehensive and balanced system. The President's HUD budget proposal makes strong progress in that direction.

A resource constrained environment underscores the priority that must be given to targeted production programs like HOME and CDBG. These programs are deeply targeted to serve low-income needs. Both meet the affordability and the supply dimensions. In all likelihood, these programs pay for themselves. Beyond providing decent, affordable housing, HOME and CDBG operate in a neighborhood-based context that facilitates overall community development, leverages other public and private resources, increases local tax bases, and creates construction and other employment opportunities. As part of a place-based strategy, existing renters and homeowners can remain in their communities and maintain established family and cultural ties. This is a strong factor in meeting crucial family needs. In furtherance of the national goal of a decent home for all Americans, HOME beams its resources on the continuum where the need is greatest, increasing the supply of affordable housing for very low-income people.

Greater Equity in the Tax Code for Housing Policy

Quite simply, it is a political fact of life that more housing policy is accomplished through the tax code than through outright appropriations from the federal government. As a nation, we allocate five times the spending resources through the tax code for housing than we do outright through low-income housing appropriations.

- Federal outlays on low-income housing assistance programs totaled an estimated $19 billion in fiscal 1992 out of total outlays of $1.3 trillion, only slightly more than **one** percent of the federal budget.
- On the other hand, federal housing-related tax expenditures in 1992, amounted to $70.3 billion, about **five** percent of the federal budget.

We acknowledge, and applaud, the role that federal housing tax policy has played in making Americans largely a nation of homeowners. That same commitment needs to be extended to more hopeful first-time low-income buyers. But we also need a sustained and expanded commitment in the tax code to address the needs of low-income renters whose incomes are typically half that of homeowners:

	Median Income
U.S. Homeowners	Roughly $33,000
U.S. Renters	Roughly $19,000

Furthermore, the typical net wealth of homeowners is 34 times that of renters, $78,403 versus $2,280. Much of homeowners' wealth is derived from their home equity, enabled by the federal tax code.

It will take a dramatic shift to achieve a more equitable tax code for housing. Federal housing subsidies have evolved into a system where more than 95 percent of

housing-related tax expenditures benefit the 65 percent of Americans who are homeowners. Conversely, 35 percent of Americans are renters who benefit from only 5 percent of federal housing tax expenditures:

- Think of it this way, the subsidy for homeowners is 19 times greater than that provided for the renter whose income is probably half that of a homeowner.
- While some 3.4 million households with incomes below 50 percent of area median struggle to pay rents consuming 74 percent or more of their income, the richest five percent of American households (4.3 million with incomes above $100,000) claim an average benefit of $3,500 per year in mortgage interest deductions.

We would not tolerate this kind of reasoning in setting eligibility criteria for a school lunch program, but it is encouraged in the U.S. tax code.

If we are certain to continue down this road, Congress must make one good faith beginning to address low-income renters' needs: *Permanently extend the Low Income Housing Tax Credit.* The price tag for permanently extending this provision is $4.9 billion over six years compared to almost $70 billion in *annual* homeowner deductions, the great majority of which benefit families with incomes well above that of the rental population. That is an outlay equivalent each year of less than one percent of that provided for much wealthier families.

The Low Income Housing Tax Credit lapsed as of June 30, 1992. This has forced the loss each month of 10,000 units—120,000 units per year—that otherwise would have been produced by the Tax Credit.

While we understand the political realities that necessitate including the Tax Credit in the budget reconciliation measure, we cannot underscore enough the effects in both human and economic terms that the lapse in the Tax Credit is creating. Furthermore, the delay is jeopardizing the viability of the very able, but resource lean, nonprofit housing delivery system which relies on the Tax Credit's equity financing for low-income housing in many of our toughest urban neighborhoods and poor rural areas.

As Congress takes action to restart this program, it should also repeal the penalty in the law for using the Tax Credit with the HOME program, reducing it from nine percent to four percent of eligible costs, and make it consistent with policy regarding Tax Credit projects assisted with CDBG.

We can not make up for lost ground at this point, but we can ensure that it does not happen again. Last year, Congress passed two tax packages that included permanent extension, both of which, for reasons unrelated to the Tax Credit, were vetoed by President Bush. President Clinton has called for a permanent extension of the Tax Credit in his economic package, the first such time a President has ever proposed a permanent extension. The Tax Credit has proven its efficacy, and Congress should permanently extend this program so that it will be freed from being habitually hostage to partisan issues.

Eliminating Mortgage Lending Discrimination

A 1992 study by Federal Reserve of Boston documented that *African-Americans are 60 percent more likely to have a loan disapproved than whites, adjusting for all controlling factors—including income and credit history.*

This is deeply disturbing news, for it has isolated the color of one's skin as the litmus test for whether the answer to your loan application is likelier to be no, rather than yes. Translated into poor, largely minority neighborhoods, where mortgage lending and small business lending needs are greatest, it means that is where credit is least available.

Congress has at hand an enormously important tool to make significant progress on this front *at no additional cost to the government* through stronger enforcement of the Community Reinvestment Act. Strong oversight by the Congress of the federal financial institutions' regulatory agencies should be aimed at immediate improvements in compliance reviews that evaluate actual lending performance against community credit needs. There are examples of lending institutions doing an outstanding job of meeting those needs, and they should be rewarded with performance incentives. Their nonperforming industry peers need to get the message that their contention that CRA "paperwork" is burdensome can be corrected and is a poor excuse so long as lending records evidence widespread discrimination.

Real progress to fair and equal access to credit will occur with the appointment of regulatory agency heads who possess a true commitment to CRA, and when local examiners are educated about how to accurately measure CRA performance, namely loans not public relations campaigns. That progress can be measured only if easily accessed data is available on the lending performance of all financial institutions providing capital and access to capital, including insurance companies. Data on small business lending must be included to reflect the community's total credit

needs. Congress needs to strongly reinforce that regulatory agencies will rigorously and fairly evaluate financial institutions on the basis of outcomes, that is, lending to minorities and disadvantaged communities relative to their need.

While CRA should be the foundation of federal lending policy, new institutions, such as Community Development Banks offer important opportunities. Admittedly CD banks are a niche compared to the vast resources of the nation's $2.6 trillion bank and thrift deposit base. And, CD banks are not a substitute for the systemic change in lending patterns that must be accomplished through the vast resources of our private lending institutions.

But what CD banks can do, as socially-motivated entrepreneurs, is target their capabilities to unique community needs, where credit has been so lacking and the community so ravaged, that it is perceived as impervious to solutions, unworthy of risking investment. We believe that CD banks can, to borrow a phrase from former Atlanta Mayor Andrew Young, "integrate the money" in important ways that traditional lenders are largely unwilling, at present, of seeing as sound opportunities. CD banks can dramatically demonstrate what should become a *pattern* of regular business practice among our nation's financial institutions. What CD Banks can yield are important demonstrations, lessons, and financing models for adaptation by private banks, thrifts, and other lenders—an applied "research and development" tool, if you will.

We believe that it is wise for the federal government to invest in expansion, start-up and capital formation of a wide variety of institutions characteristically referred to as "CD banks." Eligible entities should include a full range of institutions, including those like the South Shore Bank in Chicago, the Community Development Financing Corporation (CDFC) in Baltimore, community development credit unions, and others which the Task Force found were effective models for expanding and replicating. The notion of CD banks could be augmented by benevolent lending. The Task Force believed that with limited federal support, substantial new capital could be attracted. Benevolent Loan Funds accept deposits at low interest rates from socially motivated investors and lend that money at below-market rates to low-income housing developers and low-income homebuyers. Because the deposits are for the short-term and housing loans require long-term (20–25 years), modest stand-by support from the federal government would protect Benevolent Loan Funds from abrupt or extensive withdrawals.

While CRA and CD Banks greatly aid in overcoming red-lining practices affecting communities' access to credit, the outright practices of housing discrimination require strong remedies from Congress. Minority households continue to experience racially-based discrimination when entering the rental and homebuyer market. Funding for private groups to carry out testing and enforcement actions is an important part of the solution.

Rebuilding the Multifamily Housing Finance System

In contrast to the resilient and growing single-family mortgage markets, is an immobilized multifamily credit system. During the 1980's, multifamily starts declined by more than 50 percent, the lowest in decades. A contributing factor was that traditional first mortgage lending for subsidized multifamily housing that was previously originated by the private sector and often insured by the federal government—had all but disappeared. Concerned at the depth of the multifamily financing dilemma, the National Task Force on Financing Affordable Housing was formed. Its members included experts drawn from the real estate finance industry who were led by Wayne E. Hedion, chairman and CEO of Allstate Insurance Company and Harry Albright, Jr., chairman of Battery Park City Authority, and staffed by Kirsten S. Moy of Equitable Life Assurance.

The financing task force sought an efficient secondary market for *affordable* multifamily mortgages that provided a high degree of liquidity. The financing task force observed that states and municipalities were experimenting with a growing number of financing structures and subsidy programs. In addition, both the nonprofit and for-profit sponsors were becoming involved in increasingly sophisticated financial structuring, and generating a new and growing demand for a secondary market. The contradiction was that current practices in multifamily housing finance were increasingly divergent from the previous uniform practices. Yet, for investors, uniformity was an absolute.

After a two-year examination, the financing task force's report, *From the Neighborhoods to the Capital Markets,* concluded that the cornerstone of a revitalized multifamily financing system must be a large-scale secondary market designed to maximize the private sector's investment in both subsidized and unsubsidized multifamily housing. A series of recommendations focused on the creation of a predict-

able, flexible, accessible, and widely understood system of long-term financing for multifamily housing. While standardizing key elements of multifamily financing—from the origination of mortgages to their sale to lenders—was crucial, it must also accommodate the new diversity characterizing today's multifamily financing. Exploring risk-sharing mechanisms, such as the FHA multifamily demonstrations authorized in the 1992 housing bill, were certain to produce important answers for a revitalized role for FHA.

Finally, we would note that federal agencies, including FHA, Resolution Trust Corporation (RTC), Federal Deposit Insurance Corporation (FDIC) and others hold large inventories of defaulted multifamily properties that could, on an expedited, negotiated basis, be transferred to local government agencies and nonprofits for low-income use. The issue of FHA-owned property disposition is a critical and complex one which should be one of the first priorities of the new FHA Commissioner.

In 1992, Enterprise Vice Chair Bart Harvey testified before this subcommittee on the experiences of Enterprise's nonprofit Cornerstone Housing Corporation, created to buy foreclosed properties and preserve them for low-income use. His testimony documented that RTC's multifamily disposition program was in disarray, unable to carry out Congress' affordable housing mandate for these properties. Progress has been made since that time, and the RTC has instituted a negotiated "Direct Sales Program" to increase sales to public agencies and nonprofits.

The RTC's Direct Sales Program is a vast improvement over a year ago, but there is a serious lack of involvement and coordination among the federal agencies that should participate together. Enterprise made several proposals which were recently submitted in a statement to the House housing subcommittee, and we offer it for your consideration.

We believe that under the leadership of HUD Secretary Cisneros, the "New HUD" can capitalize on the opportunities of the RTC Direct Sales Program, FHA, and other federal agencies holding inventory to delve into improved and expanded multifamily housing activity.

Unleashing the HOME Program's Potential

Five years ago, the Task Force issued its recommendations for HOME to be the *"primary federal vehicle"* for the nation's low-income housing production system, and Congress strongly concurred by enacting the program in 1990.

The HOME program, although re-legislated in 1992, remains strapped by an entrenched regulatory environment inconsistent with Congress' intention that program decisions, unless specified by legislation, were to reside with the participating states and cities. In February 1993, President Clinton issued a Presidential Memorandum ordering HUD to act on improvements to the HOME program and speed its expenditure. With the vigorous and capable leadership of HUD Secretary Cisneros, efforts to expeditiously pursue this objective are underway.

Toward meeting the President's goal to unleash the HOME program, we have a series of observations.

A great hurdle facing the successful unleashing of this program's potential is that the mentality engulfing its implementation is geared toward what *Reinventing Government* co-authors David Osbourne and Ted Gaebler would refer to as simultaneously steering and rowing. To date, HUD has tried to force HOME into a "cookie-cutter" programmatic approach that narrowly limits the strategies that a local partner can employ in using HOME funds to address what is a divergent set of problems and needs. This prescriptive approach is not in keeping with the spirit and flexible design of the program as envisioned by Congress, the Task Force, and all who nurtured its creation. The underlying principle of the HOME program, as articulated by the Task Force, bears repeating:

> *Government closest to the people is best situated to identify and respond to needs and conditions—especially the conditions of local housing markets.*

The HOME legislation, as amended, was deliberately crafted by Congress to achieve most of the necessary steering, unless HUD was specifically directed to develop regulations or criteria for particular provisions that would need further guidance. The participating jurisdictions—state and local governments—and their local partners, including nonprofits, religious-based organizations, labor unions, lenders, and others were to do the "rowing." The maximum feasible flexibility was to reside with localities in identifying their needs and devising their HOME strategies. Beyond pivotal leadership from the federal government and formula distribution of the HOME resources, HUD's role was to hold the "rowers" accountable for their performance in implementing their strategies.

If we were to diagnosis what stalled HOME's launching, we would turn to several factors.

When the HOME program arrived on HUD's doorstep, it encountered an organizational culture that was politically oriented to give priority to one new program, the Administration's HOPE initiative. Secretary Kemp brought enthusiasm to the notion of resident management and ownership and perceived a larger role for community-based nonprofits. Beyond that:

- HUD's partnership with local governments had deteriorated to outright hostility in certain cases, and an atmosphere of distrust of many city halls and state houses prevailed. In well-intended and necessary efforts to reform the practices from the Pierce years that favored some fraudulent developers, HUD had clamped down on the *entire* federal housing subsidy and finance system. All seeking HUD assistance for their communities, even local elected officials struggling to end homelessness and meet crucial affordable housing needs were subjected to suspicion, red tape, and stonewalling. At one point proposed regulations governing access to HUD would have required elected mayors and governors seeking HUD assistance for their communities to register as "lobbyists."
- Into this atmosphere of fear and distrust came the pathbreaking HOME program freshly enacted by Congress, following five years of study, consensus-building, and compromise on a new housing delivery system that would rely on those very same maligned and mistrusted state and local governments to implement it.
- The behavior of local government officials and HUD was predictable in this environment. Local officials wanted assurances that the legitimate activities they hoped to undertake with this flexible, new program would not be found inappropriate and audit findings made down the road. Too, it was a new program, and they had many questions about how the program would work, eligible activities, what could count as match, and other concerns.
- In a sincere effort, HUD staff responded to inquiries. The wealth of questions from outside HUD was interpreted as a barometer that rules were needed to guide every conceivable situation. HUD began to formulate and issue extensive program rules. Additionally, they issued a sheaf of guidance in the form of "questions and answers" (Q&As) and departmental memoranda. Meanwhile, field offices gave answers inconsistent with the prevailing thinking at HUD Central or made misinterpretations of the legislation. An exiting political staff, having no stake in a successful outcome, made arbitrary decisions. It was at this point, where well-intended HOME career staff were operating within the Byzantine organizational culture at HUD, that the pieces petrified into a "cookie cutter" approach.

In 1992, Congress had to take extraordinary steps in passing several amendments in the housing bill to overturn much regulatory policy and to make legislative changes that would have been wiser had they been included, as advised, in the first place.

The results of an entrenched mindset linger on.

Bureaucracies can be like geological matter, moved only by glaciers or dynamite. Given the organizational culture and values of the old HUD paradigm, the staff invested itself in a difficult undertaking, and took the avenue available to them in getting the HOME program underway.

What is the cure?

We believe that the HOME program can be implemented. Secretary Cisneros has before him an enormous leadership and management challenge. We offer several course corrections:

1. Order a sweeping overhaul of the HOME regulatory framework prior to issuing final regulations this spring. "Fixing" HOME in the context of overly prescriptive regulations will not enable communities to achieve HOME's potential. Instead, the overhaul should begin by virtually tossing out the regulations. The result should be a streamlined, simplified regulatory scheme that prescribes detail only in those cases specifically called for by the legislation. It will require a gracious openness by dedicated public servants to make a course correction with HOME toward flexibility. Although communities are managing to identify eligible projects and programs, the current approach is unsustainable and not geared toward encouraging creative local initiatives that will fully unlock HOME's potential in meeting national housing goals.

2. Issue a communication to HOME participating jurisdictions that they will be given maximum feasible flexibility in implementing their programs, consistent with the statutory requirements. Short of malfeasance or gross obfuscations of the statutes, such as noncompliance with low-income targeting requirements, local decisions will not be second-guessed. Explain that at the front end, HUD is available to offer immediate assistance in interpreting the statutes, act as a clearinghouse for ideas and methods, and otherwise facilitate program design. Make it clear that HUD will

hold them accountable at the back end for performance, outcomes, and financial accountability, but HUD will not inflict mindless regulatory nit-picking.

3. To the extent that technical aspects of the legislation are generating inflexible standards or rules, it should be remedied by Congress in the near term. We believe it is important to preserve key aspects of HOME, including targeting and the nonprofit set-aside.

We believe very strongly in HOME's targeting of funds and units to very low-income people. Communities should seek ways to exceed the minimum targeting requirements, and in so doing, obtain relief from rules that would otherwise undermine their ability to achieve deeply targeted low-income housing.

We also very strongly support the minimum 15 percent set-aside for CHDO's. Nonprofits across the country, as the Task Force found, have demonstrated their willingness and capacity to undertake deeply targeted low-income housing and address needs in the context of low-income communities. In communities where nonprofit capacity is now deficient, the set-aside provides funds crucial for it to be established and grow.

4. Secretary Cisneros has already taken immediate steps to address problems with the cash management and tracking system. These and others should lead to devising a much simplified reporting and cash management system reflecting overall eased HOME regulatory requirements. A 30-day deadline should be set to achieve this objective and utilize a small, knowledgeable problem-solving team working closely with end users who must pronounce it "cured."

5. Make full use of funds available for providing technical assistance to CHDOs and participating jurisdictions. HUD has not fully utilized the $25 million provided by Congress for technical assistance to Community Housing Development Organizations (CHDOs) and HOME participating jurisdictions. Congress determined a level of funding intended to assist in the program start-up phase. In supporting this funding, Congress acknowledged that the institutional knowledge to implement the new delivery system was largely outside the federal government. There are 435 participating jurisdictions in the HOME program, a nationwide network of 5,000 community-based development organizations, and thousands of other potential partners. Accessing the creativity and expertise of knowledgeable institutions is essential. The 1992 re-legislation of HOME underscores the need to further educate and train the delivery system's willing partners.

One final observation. In 1986, critics believed that the Low Income Housing Tax Credit "wouldn't work." IRS "didn't understanding housing programs." "Nonprofits will never use the program." The program was "continually modified" and "significantly amended."

Nonetheless, it has worked, and much credit goes to the state and local allocating agencies, their local partners, nonprofits, and private developers. It operates with a minimal regulatory scheme and relies on the sound decision-making and underwriting capability of the allocating agencies, who are in tune with their constituencies and program users. The Tax Credit has been very successful, producing 120,000 units at its peak annual capacity. We did get beyond the awkward start-up phase, and it was largely based on a need to refine the program and find the will to make it work, much as we must do to get HOME launched.

We are encouraged that President Clinton and Secretary Cisneros are giving their attention to unleashing HOME's potential.

A Decent Home & Living Environment for All Americans: Achieving the Promise

"I am in general agreement with the Eisenhower Foundation's assessment that the famous prophesy of the Kerner Commission of two societies, one black, one white, separate and unequal, is more relevant today than in 1968."

Coretta Scott King
National Press Club speech on the 25th Anniversary of
The Kerner Commission Report on Civil Disorders
April 8, 1993

A few short weeks away, on August 30, the upcoming 25th anniversary of the 1968 March on Washington reminds us that we are not here to dream small dreams. We need look no further than the gulf of racism and poverty that separates us as a nation to discover the root causes of the brutality and violence scarring our communities. It will take large dreams indeed to overcome these conditions.

Most Americans are separate and apart from a growing mass of people whose lives and communities are,

disadvantaged,

disenfranchised,
dispirited,
disintegrated,
disheartened,
discouraged,
disparate,
disengaged,
diseased.

In proposing a future direction, our solutions must encompass a means to cure this deadly pathology.

As a first step, we must recognize that the very foundation of our security as a nation is derived from the integrity of our homes, families, and communities.

The framework of the National Affordable Housing Act, as amended, is based on sound principles. Its full funding and refinement and a permanent extension of the Low Income Housing Tax Credit should be made a matter of utmost priority by the President and the Congress, so that we have set in motion a plan that will afford every American an opportunity for a decent place to live. We have detailed in our discussion our ideas on how that might be achieved.

Beyond this, we must broaden our horizons to systemically and simultaneously transform the tragic conditions in our communities into profound and enduring change.

Can it be done? The answer is yes.

In Baltimore today, under the leadership of a bright, able, deeply concerned mayor, Kurt Schmoke, and the people of the Sandtown-Winchester neighborhood, The Enterprise Foundation is assisting in an enormously important program to prove that entrenched conditions can be corrected—and that it will cost less to do so than to pay the outrageous, mounting costs of *not* doing so.

Sandtown is a new comprehensive program, in motion, with intensity, thoroughness, and involvement by the people and the city and with a determination to succeed. It is precisely for the purpose of changing the state of mind in the country—of demonstrating that there are answers.

The Sandtown-Winchester neighborhood is 72 square blocks in the inner city; 12,000 people; 4,000 dwellings; median household income hovering at $10,000 a year; 44 percent of the men and women seeking work are jobless; one of the five highest crime areas in the city; no full-time practicing physician.

It is a neighborhood of persistent poverty, decline, loss of hope, fear, violence—immediately adjacent to the riots of 1968. It could just as easily be a neighborhood in Detroit, Los Angeles, Miami, St. Louis, Philadelphia.

Beginning little more than a year ago, extensive study and reports were made by the people of the neighborhood. Continuing now with the neighborhood, a top to bottom transformation of schools, health care, housing, and other systems has begun. We offer, for the record, a copy of the Sandtown neighborhood residents' report citing that all the social and physical conditions in their neighborhood will be transformed over the next five years:

- Children will walk safe, tree-lined streets to good schools ready to help children learn and grow.
- School dropout rates will be drastically reduced.
- Comprehensive health care will be affordable and available to every man, woman, and child.
- There will be skill training, job placement, and small business development, day care, drug prevention, and correction.

The purpose is to make all the dysfunctional systems work to enable people to fulfill their highest capacity and to be proud of where and how they live.

Instead of despair feeding an oppressive, downward spiral, hopeful steps will each reinforce another and fuel the energy of transformation.

Never before in America, we believe, has such a whole effort been undertaken as in Baltimore's Sandtown neighborhood. There are impressive demonstrations of a school program that works here, of a drug prevention program there, a skill training model elsewhere, but each has been an eye in a hurricane all around it.

Sandtown and its promise is not an end to a story, but an important part of what needs to begin throughout this country.

Where this Congress and the Administration can be most bold, outside of The National Affordable Housing Act, is to examine comprehensive answers to the problems of very poor people in the urban environment, and based on a series of dem-

onstrations—such as those underway in Baltimore's Sandtown and the Carter project in Atlanta—expand these approaches across the country.

We can not prescribe exactly how this is to be done, but we know that earnest work is underway to develop CD Banks, Enriched Enterprise Zones, and "Reinventing Government"—so that health, human services, housing, and justice get delivered in the most effective way to deal with dysfunctional communities. The Congress, enabled with fresh ideas and leadership from the Administration, will discover that communities can infuse great energy and resolve into what must be a comprehensive solution to transforming the conditions of our society.

Enormously bright, able leaders, with Henry Cisneros at the helm of HUD, will find ways to put forth an urban agenda. We are already paying $750 billion for the costs of the dreadful conditions in our communities. Rechanneling what we are already spending is an investment approach from which we can all benefit.

Thank you.

The National Housing Task Force

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COMMUNITY BUILDING IN PARTNERSHIP

NEIGHBORHOOD TRANSFORMATION DEMONSTRATION
SANDTOWN-WINCHESTER, BALTIMORE
MARCH 1993

Progress Report

Community Building in Partnership (CBP), the nation's first neighborhood transformation initiative, was launched three years ago by the residents of the Sandtown-Winchester neighborhood, Baltimore City government and The Enterprise Foundation. The Partnership's vision is the transformation of every dysfunctional system in the neighborhood—housing, education, human services, health care, public safety, employment, and more—to enable all residents to achieve their highest potential.

Today, planning is complete, and the Partnership is ready to begin implementing programs to transform not only the delivery of critical services but the ability of the Sandtown community to sustain and rely on itself.

Transformation efforts have been concentrated in three broad areas: community building, immediate projects, and program design. These activities are overseen by an Interim Advisory Committee consisting of six residents and City, Enterprise, and nonprofit representatives. Residents have been integrally involved in all facets of work.

Community Building

Community building—grassroots organizing, leadership development, resident-led activities, and building community ownership of CBP—is a cornerstone of the transformation effort. The residents of Sandtown-Winchester have taken the lead in organizing their community. A longtime resident and activist serves as community liaison for the Partnership. Existing neighborhood-based groups, including the Sandtown-Winchester Improvement Association (SWIA) and Baltimoreans United in Leadership Development (BUILD), continue to organize their constituencies in support of CBP and around pressing issues such as public safety and education. There are over 40 churches in Sandtown, many with activist agendas, that help to organize anti-drug rallies, offer day care and after-school programs, and provide assistance to needy families.

Seven Sandtown residents serve as paid community advocates who help to inform, recruit and involve their neighbors in all CBP activities, from planning efforts and focus groups to special projects such as summer youth employment, voter registration, block club formation, and production and distribution of a community newspaper. The advocates have proven especially effective in communicating with groups of residents who traditionally are difficult to reach, and are a vital asset in building neighborhood ownership of CBP. Since last summer, record numbers of residents have participated in program design and focus groups and in social and cultural activities.

Immediate Projects

The Partnership began implementing critical project activities at the start of CBP. Though long-range planning is necessary and has been carefully carried out, it was also clear as the transformation process began that Sandtown-Winchester had urgent needs that could be addressed quickly. These early projects also function as building blocks for larger program activities. The City of Baltimore's Office of Employment Development, for example, secured a Youth Opportunities Unlimited grant from the Department of Labor to renovate an abandoned school building in the neighborhood and create a "Community Support Center." The support center now serves Sandtown families with GED and adult literacy classes, after-school tutoring, youth employment programs, senior activities, on-site day care, and emergency assistance. New human services programs will be based at the center.

To deal with Sandtown's crumbling housing stock, nearly 1,000 units have been rehabilitated or constructed in the last two years, including 227 new townhouses for homeownership built under the federal Nehemiah program. These homeowners have formed an active association and have helped to stabilize a large section of the neighborhood. Other activities include:

Housing—Modernization of the 571-unit Gilmor Homes public housing complex. Selective rehabilitation of 20 rental units under the City Homes program, which includes a lead paint abatement demonstration. Rehabilitation of 30 homeownership units by Sandtown Habitat, including a 10 unit "blitz build" by President Jimmy Carter in June 1992. Construction of Sandtown Manor, 11 new units of low- to moderate-income housing. Grants and loans to support nonprofit housing development through the National Community Development Initiative.

Education—Start-up of pre- and after-school programs for students in grades 1–12 at the New Song Community Learning Center. Participation of two Sandtown-Winchester schools in Tesseract, a private education management program operated by Education Alternatives, Inc. Dropout prevention at Harlem Park Middle School through the Maryland's Tomorrow program. Installation of a state-of-the-art computer network at Gilmor Elementary, with training for teachers and students by Major Educational Resources.

Health Care—Establishment of the Baltimore Project in fall 1990 for door-to-door outreach to provide pre-natal care and services for all pregnant women in Sandtown-Winchester. Expansion of the Baltimore Project through Healthy Start to provide additional outreach and support services for family planning and child development beginning in September 1992. Diabetes, cholesterol, and hypertension screening for citizens.

Human Services—Establishment of a food and clothing cooperative. Production of a Sandtown-Winchester Resource Directory. Employment of several hundred teenagers through 1992 Summer Jobs for Youth program. Start-up of a mentoring program for youth aged 14–18. Adoption of all needy families during Christmas 1992.

Community Building—Monthly production of a community newspaper, the *Sandtown-Winchester Viewpoint.* Street ministries and anti-drug marches by local churches. "Get Out the Vote" to register voters and provide transportation to the polls in 1992. Halloween Pumpkin Patch celebration. "Christmas in Sandtown" activities for residents and assistance for needy families. Initiation of street sweeping in June 1992. Recruitment of resident sanitation inspectors. Grassroots organizing of residents to maintain areas adjacent to their homes.

Public Safety—Block Watch and Neighborhood Watch programs with the help of the Western District Police.

Recreation—Expansion of programs ranging from ceramics to aerobics at the Lillian Jones Recreation Center. Renovation of three playfields to include tot lots, a refurbished swimming pool, and new basketball courts.

Program Design

During 1990–91, Sandtown residents led an eight-month community planning process to identify the neighborhood's most pressing needs and develop a vision and goals for transformation in eight areas: physical development, health care, education, family development, substance abuse, public safety, community pride and spirit, and employment/community economic development.

In spring of 1992, the Partnership launched the next phase of planning, the formation of program design "clusters" in four broad areas—human services, education, physical/economic development, and community building. The clusters were led by professional coordinators and included residents, local and national practitioners, and City and Enterprise staff. Their task: to develop innovative programs to carry forward the vision and goals expressed by residents and others during the earlier community planning process.

Over a period of six months, each program design cluster outlined the specific programs and implementation steps necessary to transform systems and better serve whole families in health, human services, substance abuse, housing, employment, crime and safety, commercial/retail development, education, and community building. The various program designs were integrated into "A Proposal to Transform the Sandtown-Winchester Neighborhood."

Proposal to Transform Sandtown

The "Proposal" is designed to achieve five basic goals: 1) Mobilize and empower Sandtown residents to sustain an improved quality of life; 2) Prepare all children to succeed in school; 3) Prepare all young adults to enter the work force or continue on to higher education; 4) Enable all families to support and care for themselves; and 5) Enable all residents to live in a safe, nurturing environment and enjoy a significantly improved quality of life.

Toward that end, the "Proposal" specifies what will be done in each of several functional areas:

Housing/Open Space—Create a nonprofit "neighborhood development center" to assist developers and homeowners to acquire and hold property, assemble needed financing, address property management and maintenance needs, and oversee the development of community gardens, parks, play areas, and other open space throughout the neighborhood.

Education—Establish a partnership with Baltimore City Public Schools (BCPS) to provide high quality education to pre-school, school-age and adult learners in the neighborhood. Assist schools in complying with BCPS's school improvement agenda through an intensive professional development program. Connect public schools to services to provide pre-school education, high quality parental involvement, tutoring, mentoring and other community-based academic supports. Facilitate the transition to site-based management of schools. Use schools for child development centers, community education, and communications.

Human Services—Enhance the Mount Street Community Support Center as the focal point for service delivery and integration in the neighborhood. Link outreach and delivery of human services through "family support teams" consisting of a social worker and resident home visitor. Create a consortium of health and human service providers to coordinate regular communication, planning, training, and sharing of facilities. Develop a management information system that links service

providers and family support teams. Expand services for youth to help them stay in school, obtain skills and training, and encourage self-development.

Health—Create a community-based health care system focused on prevention and primary care and accessible to all residents. Provide a full range of health services including health education, early diagnosis and treatment, and rehabilitation. Assign home visitors through family support teams who will identify family health needs and coordinate care through neighborhood health centers. Place a mental health professional and nurse in all schools.

Substance Abuse—Establish a range of treatment services (residential care, outpatient treatment, support groups and in-home counseling) in the neighborhood to support addicted individuals and their families. Offer substance abuse prevention education programs in schools and community centers. Provide the necessary support to strengthen families and prevent substance abuse through the family support teams.

Employment Development—Establish a Neighborhood Employment and Training Center in the neighborhood to help residents secure jobs and provide assistance to neighborhood entrepreneurs. Launch a "community improvement jobs" program to offer subsidized employment to residents while they receive training. Provide industry-linked training to connect residents to jobs in the regional economy.

Public Safety—Implement programs in partnership with the Police Department such as block watch, drug/crime free zones and citizens on patrol to increase the resident involvement and responsibility for crime prevention and law enforcement. Train police and residents to implement community-oriented policing.

Commercial/Retail—Renovate Lafayette Market as a new African-American marketplace offering a variety of foods, crafts, and cultural activities. Oversee the revitalization of the Pennsylvania Avenue commercial strip according to a community-determined plan.

Community Building—Create a "coordinating council" of existing community organizations to foster leadership. Establish a volunteer clearinghouse to train and place volunteers. Develop recreational, cultural and historical programs to nurture community pride and spirit.

Throughout January and February 1993, the community advocates and residents who had served on the four program design clusters presented the "Proposal" to Sandtown's neighborhood organizations, City agencies, and residents who had not been directly involved in the planning. The "Proposal" was fully endorsed by all. The review process concluded with a town meeting led by Mayor Schmoke in early March, where residents expressed their eagerness to move forward with implementation.

Community Building in Partnership, Inc.

To oversee implementation of the new programs outlined in the "Proposal," the Partnership has recommended the creation of a new management vehicle—Community Building in Partnership, Inc. (CBP, Inc.). As proposed, CBP, Inc. will be a nonprofit corporation chartered by Mayor Schmoke and the residents of Sandtown-Winchester. Its mission will be to ensure the effective implementation, coordination and monitoring of the housing, physical and economic development, education, health and human services and community building activities in the neighborhood.

CBP, Inc. will have two basic functions: (1) to work with existing community organizations, churches, businesses, and public and private agencies to coordinate and, as necessary, restructure the delivery of programs and services; and (2) to directly develop and operate new programs or services as needed until a neighborhood organization or agency is capable of assuming the management functions. CBP, Inc. will use existing service providers and will place strong emphasis on building the capacity of residents and community-based organizations in carrying out new programs and activities.

Over time, CBP, Inc.'s roles and responsibilities will evolve to provide more oversight and accountability and less service provision or operations management.

Staffing

Over the last three years, the Partnership has operated with a core organization composed of City and Enterprise staff and neighborhood residents' under the guidance of the Interim Advisory Committee. In addition to the work of the community advocates, residents help manage gardening and sanitation efforts and assist with Sandtown's food and clothing bank. Consultants have led program design efforts.

Documentation/Evaluation

Enterprise is currently assembling a team to document the neighborhood transformation process, evaluate all programs, and report lessons and findings to policymakers, funders, and community and private sector leaders across the country.

In the area of process documentation, Partnership participants—including residents, Enterprise, city agencies, and service providers—will chronicle their activities under the direction of a documentation manager responsible for written, visual, and oral documentation. Quality of life indicators that demonstrate the impact of transformation activities on the neighborhood's systems, culture, ethic, and everyday social interactions will also be documented.

Program evaluation will involve professional evaluators working with Partnership participants to refine desired program outcomes and track and measure progress toward the goals at regular intervals. Working together, evaluators and the Partnership will decide how often to assess progress, how to collect data, and what methods of analysis to use. As appropriate, progress will be measured against a baseline economic and demographic profile of Sandtown-Winchester.

Fundraising

The Partnership continues to raise money from foundations and other sources committed to the transformation of America's inner cities. A Sandtown-Winchester Support Committee composed of local corporations and foundations is being formed, and plans are underway to seek federal demonstration funds if and when they become available for transformation-type projects under the new administration.

Other Cities

The Enterprise Foundation is providing technical assistance to Miami-Dade Community College and the Overtown Neighborhood Partnership as they begin transformation activities in Miami's Overtown neighborhood. Enterprise anticipates providing varying levels of assistance to other cities interested in neighborhood transformation in the coming months, perhaps under the auspices of a "Neighborhood Transformation Center."

TESTIMONY OF F. BARTON HARVEY, III
THE ENTERPRISE FOUNDATION

APRIL 1, 1993

Mr. Chairman, I appreciate the opportunity to submit a statement on the Resolution Trust Corporation's (RTC) Affordable Housing Program (AHP) on behalf of The Enterprise Foundation. I am the vice chair and co-chief executive officer of The Enterprise Foundation.

In 1989, as a component of the Financial Institutions Reform and Recovery Act (FIRREA), The Enterprise Foundation worked hard for the passage of the AHP. Enterprise is committed to using the program to expand the supply of affordable housing to low-income renters and buyers and is especially interested in ensuring that the program works for nonprofit housing developers and in areas where there is not strong nonprofit capacity.

The Enterprise Foundation is a publicly supported 501(c)(3) charitable organization working in over 100 cities, with more than 300 nonprofit neighborhood groups. Our mission is to see that all poor people in the United States have the opportunity for fit and affordable housing within a generation and to move up and out of poverty into the mainstream of American life.

The Foundation was launched in 1982 by its chairman James W. Rouse and his wife, Patty. Mr. Rouse had the privilege to serve at the request of Congress as chairman of the National Housing Task Force. Its recommendations provided input for the landmark housing bill, The Cranston-Gonzalez National Affordable Housing Act.

In our work throughout the country, The Enterprise Foundation assists grassroots nonprofit groups with their programs to rebuild housing and community in some of the most distressed and poorest neighborhoods in the country. Enterprise has provided these local groups with "seed" capital in grants, loans and equity investments to create 25,000 units of housing for very low-income people. To date, Enterprise has put into nonprofit sponsored housing more than $500 million that has been leveraged many times over with private sector, state, local and federal financing.

Since the Low Income Housing Tax Credit was created in 1986, our experience in developing multifamily housing has expanded enormously. The Enterprise Social Investment Corporation (ESIC), a wholly-owned subsidiary of The Enterprise Foun-

dation, has raised $650 million in equity investments from over 130 of America's major corporations that will produce over time more than 26,000 units of low-income housing. By forging partnerships among business, government, and local nonprofits, ESIC has become one of the leading sponsors of institutional investment in low-income housing nationwide.

The Enterprise Experience with the RTC Affordable Housing Program

With early recognition of the challenges that would face nonprofits in accessing RTC multifamily properties, Enterprise created Cornerstone, a nonprofit supporting organization of The Foundation. Cornerstone was endowed with strong real estate expertise, significant initial working capital and a goal of becoming a proficient user of federal property disposition programs.

It was intended that this not-for-profit developer, owner, preserver and operator of affordable housing would work with local nonprofit organizations where possible and leverage off of The Enterprise Foundation's extensive operations and expertise in low-income housing. Cornerstone received its seed capital from an affiliate of The Enterprise Foundation and Fannie Mae in the form of a $2 million soft loan, repayable starting in 1994.

Cornerstone's mission is to significantly expand the permanent supply of decent, safe, affordable rental housing in this country by capitalizing on current opportunities to acquire, rehabilitate, preserve and operate thousands of multifamily housing units. Cornerstone was formed to fill the need for nonprofit development capacity in underserved communities, either by serving as a developer of last resort or a joint-venture partner for existing nonprofits. In addition, Cornerstone was established to enhance the overall quality of life of tenants by providing targeted social services and a supportive community environment.

Since its inception in August 1991, Cornerstone has encountered a number of difficulties in acquiring multifamily properties through the RTC's Affordable Housing Program and, only recently, closed on its first two properties acquired from the RTC. The organization initially bid on properties from the RTC in Dallas, where The Enterprise Foundation bias a very strong program, access to the major financial institutions, and a measure of credibility. After extensive preparation, consultation, and the opportunity to relay our experiences and concerns to Steve Allen and others on the RTC's affordable housing staff in Washington, we placed five bids on properties totaling 968 units. Each was an aggressive bid, utilizing all the financing advantages nonprofits can use including tax credits, affordable housing grants, tax exempt financing, and favorable city financing.

Despite our ability to close quickly with grants, and our tax credit applications and permanent financing being in place, we won none of these bids. It was difficult to determine how we were denied and to track what then happened to these properties. Our initial experiences caused us to believe that the program was flawed regarding nonprofit participation and that few multifamily properties would end up in the hands of credible nonprofits serving very low-income people. None of the five properties were closed with the "winning bidders," and each had to be recycled six or more months later.

More recently, however, our interaction with the AHP has led to Cornerstone's first successes. In partnership with the Federal Home Loan Bank of Dallas, Bank United, the RTC and The Enterprise Foundation, Cornerstone was able to purchase 438 units of housing for low-income residents of Dallas. On September 24, 1992 we closed on the purchase of the 272 unit Diamond Creek Apartments, located in the mixed ethnic neighborhood of East Dallas. And a December 30, 1992 closing finalized the purchase of the 166 unit Park Meadows Apartments in the largely-hispanic Bachman Lake area of Dallas.

Assembling the long-term financing for these properties was fraught with difficulties, and remains our greatest barrier in taking down RTC multifamily properties at scale. The Diamond Creek project was financed with a 16-year, $1.8 million first mortgage loan from Bank United of Texas FSB; a $952,000 Federal Home Loan Bank of Dallas grant; $1 million in tax credit equity through Enterprise's syndication subsidiary (ESIC); a $260,000 Program Related Investment (PRI) loan from The Ford Foundation; and an $800,000 RTC seller-financed loan. The total project cost included financing for the repair of 30 units which had become uninhabitable because of water damage. Rehabilitation is in progress, and stabilized occupancy of Diamond Creek is expected this spring, having already increased occupancy by 12 percent (26 additional units) since acquiring the property in late September.

The financing partners were the same for the Park Meadows project, except a $250,000 PRI loan was made by the John D. & Catherine T. MacArthur Foundation rather than The Ford Foundation. Cornerstone is also under contract to buy the

RTC's 224 unit Steppington Apartments, to be financed by tax-exempt bonds issued by the Texas Department of Housing and Community Affairs.

Because Cornerstone is strongly committed to serving low-income residents, we are achieving deep low-income occupancy significantly exceeding the RTC's targeting requirements. Cornerstone has imposed its own ceiling on tenant income at 60 percent of area median income, which is 20 percent lower than the RTC's required 80 percent of area median income. In Dallas, this means that we are typically serving 4-person families with incomes well below $19,700 per year (60 percent of median) and $16,418 per year (50 percent of median). In contrast, the statutory requirements for RTC are that 35 percent of units serve households below 80 percent of median income and 20 percent below 50 percent of area median.

Improvements to the RTC's Affordable Housing Program

INTERAGENCY POLICY COORDINATION

In 1992, the RTC created the Direct Sales Program to increase the sale of multifamily properties to public agencies and nonprofit organizations. The program is just now coming into full operation and has vastly increased the opportunities for nonprofits to access affordable multifamily housing through the AHP. However, in our interaction with the Direct Sales Program and the AHP, The Enterprise Foundation has found a serious lack of involvement and coordination among the federal agencies that should participate together. The federal government has a daunting task in property disposition, and coordinated interagency policies would make the government a far more effective partner.

With respect to the RTC's disposition of multifamily properties, there is need for federal interagency coordination between HUD, RTC, the Affordable Housing Program of The Federal Home Loan Bank System and even state tax credit allocators. This is desirable because:

- With the availability of coordinated federal financing for public agencies and nonprofit organizations, the RTC can increase the recovery of taxpayer losses through the sale of its assets and speed up the recovery in some regions with depressed real estate markets.
- An accelerated Direct Sales Program can stimulate the creation and growth of the nonprofit developer and owner sector, in turn, creating additional real estate-related jobs through rehabilitation and other economic activity.
- Many of the RTC properties now available to nonprofits and public agencies are in neighborhoods that have not traditionally included low-income housing, providing modest income families with greater economic opportunity through access to the local job market.
- RTC property is a good bargain. The capital structure of RTC acquisition and redevelopment deals can cost less than half the price of newly constructed projects in today's market.
- RTC housing carries low debt-servicing obligations. This means it can be acquired and redeveloped with fewer federal rental subsidies and lessen the long-term burden on government.
- This inventory, once gone, is the potential loss of hundreds of thousands of units which could have been maintained for low income use at little cost to the government.

These opportunities can be maximized only if the financing tools and expertise of institutions with this knowledge and experience are brought into the AHP.

THE "NEW HUD" ROLE

Under the leadership of Secretary Cisneros, the "New HUD" can capitalize on the opportunities of the RTC Direct Sales Program to delve into improved and expanded multifamily housing activity. In the past decade, we have seen enormous changes in government tax, subsidy and insurance programs, as well as a breakdown in the way our nation has financed multifamily rental housing. The National Task Force on Financing Affordable Housing has documented that from 1985 to 1990, mortgage originations for multifamily housing declined by over one-half to their lowest level in decades.

Further, the systemic, deficiencies of the FHA's insured multifamily programs, including the trouble-ridden coinsurance program, have virtually eliminated HUD's role as the prime credit enhancer in multifamily housing activity. FHA's share of total multifamily insurance had fallen from a 30 percent high in the early 1980's to an insignificant 3 percent in 1989.

With uncoordinated federal programs and a dearth of multifamily lending and credit enhancement, nonprofits are having a difficult time accessing the Direct Sales Program. Nonprofit organizations need time to access layered financing and are un-

able to take significant interest rate risk requiring long-term loans of 15 or more years in order to be aggressive buyers. Private financial institutions have not been forthcoming with such loans for a variety of reasons.

Enterprise believes that the RTC Direct Sales Program should be a priority of the "New HUD," and our experience has shown us that this program, carefully linked with available federal resources, could be a major producer of nonprofit housing for low-income families. For HUD to maximize its potential in such a partnership, the department should facilitate the purchase of RTC multifamily properties by expanding the financing options, including:

- Increased Credit for Long-Term Lending Through The Community Reinvestment Act (CRA)

The HUD Secretary can play a major role by increasing the use of CRA in leveraging private funds for long-term multifamily investment. Financial institutions are under increasing pressure to fulfill their CRA obligations, and HUD's ability to generate increased interest and financial commitments in low-income rental housing for "CRA credit" would provide greatly needed funding to increase nonprofit housing providers' participation in the Direct Sales Program. However, it must be clear that long-term lending versus short-term loans gets "higher credit."

Additionally, HUD should create clear CRA guidelines and regulatory incentives for lenders to finance long-term multifamily housing which will meet the RTC targeting requirements. Once such guidelines are in place, HUD must educate the regulators to ensure full compliance.

- Improved Credit Enhancement

To further foster multifamily housing activity, HUD should take the lead in redesigning a meaningful credit enhancement program that works in conjunction with the Direct Sales Program. The Housing and Community Development Act of 1992 authorized a risk-sharing demonstration program which could increase the level of multifamily housing activity and production by 45,000 units over 3 years. To implement this program, FHA is instructed to utilize the experiences and resources of leading state housing finance agencies and federal government sponsored enterprises. We believe that the demonstration's program design should take into account the RTC's stock of affordable multifamily housing.

- Streamlined Processing

The difficulty nonprofits have had with the coordination of federal housing programs causes us to believe that HUD should take a look at existing programs within the department and determine how guidelines could be streamlined to work more efficiently with the Direct Sales Program. Specifically, guidelines of the Section 223(f) Existing Multifamily Rental Housing program and the Low Income Housing Tax Credit and FHA processing have been barriers to greater nonprofit participation.

The 223(f) Program

The 223(f) program is one of the last available federal programs for financing the purchase of multifamily housing. Through the program, HUD insures mortgages to purchase or refinance existing multifamily projects of at least five units that do not require substantial rehabilitation.

Under current guidelines, the 223(f) program is difficult for nonprofits to use for gap financing in conjunction with the Direct Sales Program. In accordance with the 223(f) program, a nonprofit borrower can finance 100 percent of HUD-allowed costs, which still leaves several other costs which must be financed. To cover the remaining costs, nonprofits have access to soft loans as a substitute for equity from a variety of sources. Typically, nonprofits do not have equity to invest, nor do they wish to sell a building to make money to recover their equity investment if they had one. The only means to repay soft loans (frequently called program-related investments or PRIs) is from project cash flow (residual receipts), which can be significant (due to income coverage requirements) even when rents are targeted at very-low income households and therefore substantially below market. Current Section 223(f) program rules prevent the distribution of residual receipts to nonprofit developers.

Without the distribution of residual receipts for loan repayment, the cost of a project that is excluded from HUD-allowed costs leaves a substantial gap to be financed by a nonprofit developer. In the case of many nonprofit organizations, this gap in financing can be prohibitive to accessing the RTC Direct Sales Program.

The HUD Secretary could ameliorate this problem by requiring the FHA Commissioner to create a committee to review requests for waiver of rules for Section 223(f) loans affecting the ability of nonprofit organizations to use surplus cash to repay equity-like loans and to pay certain acquisition and redevelopment-related overhead

costs. The committee should be based in Washington and act as a bank loan committee, required to make decisions quickly. If HUD feels it is necessary, the mortgage interest premium (MIP) on loans for which such waivers are granted could be increased from .5 percent per year to .75 percent per year.

Conversely, nonprofit use of the Section 223(f) program could be improved if HUD would permit nonprofit organizations which meet certain tests (i.e., they are not controlled by or affiliated with for-profit property management or development entities) to use residual receipts to pay reasonable development fees or for the recovery of reasonable overhead charges which permit the nonprofit to continue to conduct its low-income housing activities.

The Low Income Housing Tax Credit

The Low Income Housing Tax Credit serves to build affordable housing delivery system capacity by acting as a catalyst for established and emerging nonprofits to forge partnerships with corporations, lenders and government. According to 1991 estimates by the National Council of State Housing Agencies (NCSHA), nonprofit participation overall was approximately 14 percent of all 1991 tax credits allocated. In some states, the percent allocated greatly exceeded the required 10 percent set-aside for community-based nonprofits, as in Rhode Island where 51 percent of credits were, awarded to nonprofits, and Vermont (79 percent). NCSHA reports that in other states, including Connecticut, Illinois, North Carolina and Pennsylvania, over 25 percent was awarded to nonprofits.

Clearly the intent of Congress was for the RTC to make full use of the Low Income Housing Tax Credit. A careful effort should be made to ensure that HUD subsidies and credit enhancement work with respect to RTC purchases involving Low Income Housing Tax Credits. Several suggestions have already been made by the RTC.

FHA Expedited Processing

Cornerstone and other nonprofit organizations have had trouble utilizing the Direct Sales Program because of the incongruity between topical FHA processing periods, which can be a year or more, and RTC closing requirements which are generally 60 to 90 days. In the Housing and Community Development Act of 1992, an amendment was adopted requiring HUD to develop expedited procedures for processing FHA insurance for RTC multifamily residential properties.

Recently, HUD issued an interim rule to implement this provision. There are a number of ways in which this interim rule could be improved. It gives the loan applicant some assistance to save time in getting the application to HUD, but it does not significantly hasten the HUD review. The amendment was designed to allow for broader discretion in crafting the rule.

NONPROFIT DEFINITION

Another hurdle Enterprise faces attests to further lack of interagency coordination regarding the Affordable Housing Program. The IRS has issued an interim rule which gives a definition of 501(c)(3) charitable organizations providing low-income housing that is inconsistent with the RTC's definition of nonprofit housing providers.

In accordance with FIRREA, the RTC requires a nonprofit to reserve at least 35 percent of its units for low- (those with incomes less than 80 percent of area median income) and very low-income residents (with incomes less than 50 percent of the area median income). Very low-income units can rent for no greater than 30 percent of 50 percent of area median income; lower-income units for no greater than 30 percent of 65 percent of area median income. Further, the RTC assesses a nonprofit's aggregate housing stock rather than on a project by project basis.

The IRS's interim rule proposes a definition requiring a nonprofit to reserve 75 percent of its units for those with incomes of 60 percent of the area median income or less. The remainder of units (25 percent) must serve "the lower end of the spectrum." The IRS assesses a nonprofit's compliance on a project by project basis.

Each federal housing program receiving substantial participation from nonprofits has an individual nonprofit definition. To date, the IRS's proposed definition matches none of these. The Enterprise Foundation appreciates the federal government's commitment to assisting in the capacity building of nonprofits through federal housing programs, but we believe that capacity building would be a much easier task if there was a coordinated effort to define nonprofits and set common goals for their provision of housing units for low- and very low-income residents.

EXPAND THE INVENTORY OF PROPERTIES ELIGIBLE FOR THE AHP

In order to maximize the potential of the AHP to expand the supply of affordable multifamily property, the RTC should be authorized to add qualifying multifamily

properties in conservatorship to the AHP rather than delaying the transfer until they are in receivership. Without this rapid transfer, prime affordable housing will be lost.

As documented by the RTC National Housing Advisory Board, the AHP has become efficient enough to add multifamily properties in conservatorship with little or no extra cost, and no additional appropriation. The advisory board reported that the price discount on multifamily projects sold through the AHP is approximately the same cost as those sold outside the program.

In addition, Enterprise would like to see the Federal Deposit Insurance Corporation (FDIC) successfully implement its Affordable Housing Program, created by Congress in 1991. We have concerns about the FDIC's delay in implementing the multifamily portion of the program.

The National Council of State Housing Agencies (NCSHA) has submitted testimony which accurately details the importance of expanding the inventory of eligible AHP properties. We thoroughly agree with the points NCSHA has presented regarding conservatorship properties and an expansion of the FDIC Affordable Housing program.

Expand Opportunities to Utilize RTC Properties for Homeless and Single Individual Households

The Enterprise Foundation believes that greater consideration should be given to including hotels and motels in the AHP. Appropriate structures could be used as Single-Room Occupancy (SRO) dwellings to meet the ever increasing demand for very low cost housing for homeless individuals and the elderly. Such facilities could easily be designed to provide both shelter and supportive services to, residents.

Improve Appraisal Industry Education and Guidelines for Nonprofits

The appraisal industry's guidelines have consistently made it difficult for nonprofits to secure financing based on the special characteristics of their deals. This is yet another reason nonprofits have had limited participation in the AHP. We believe that the RTC Direct Sales Program and the nonprofit housing sector would be much better served if appraisers were educated to assess the true value of such lending, and appraisal guidelines promoted realistic evaluations of unconventional loans.

Hard loan-to-value ratios are relatively low in most of the very low-income deals Enterprise helps structure. Many of these projects have significant soft loan subsidy and/or equity investment to make the projects affordable and therefore require hard long-term debt for less than 50 percent of total development costs, sometimes as low as twenty percent.

Because these deals are unconventional, and carry high hard and soft loan-to-value ratios, appraisers do not understand how to accurately assess them. The deals are consistently undervalued, despite their low hard loan-to-value ratios. Enterprise's own record in undertaking the development of more than 25,000 units of low-income housing nationwide shows a default rate of less than one quarter of one percent, or virtually none.

We believe that the appraisal system should be modified to acknowledge soft debt for what it is, and emphasize hard debt coverage based on rental income and expenses incurred, using both current and historical data. Such an assessment would establish a realistic value based on the value of subsidies, below market rents and hard debt coverage.

Ensure an Effective Monitoring and Compliance System

In order to carry-out the stated goals of the AHP, The Enterprise Foundation would like to see an effective monitoring and compliance system in place. In light of our recommendations about the need for clear and constructive interagency coordination, we believe that it is the responsibility of all of the participating agencies to ensure that the Affordable Housing Program of the RTC is in compliance with regard to income levels and number of units, and equally as important, that the many financial systems are working well with one another to provide for maximum participation in the program.

Conclusion

Since 1989, the RTC has taken great strides to establish and improve its Affordable Housing Program. The Enterprise Foundation credits Steve Allen and Barry Wides for their perseverance and commitment to do so. However, in number terms, very little of the potential of this program has been realized by nonprofits and governmental agencies. We are hopeful about the Direct Sales Program. But it can only be successful if the RTC and relevant federal agencies will devise a cohesive strat-

egy to link efforts in property disposition with financing in ways in which nonprofits can participate.

Thank you.

STATEMENT OF DIANE VONEIDA

DIRECTOR OF COMMUNITY DEVELOPMENT DEPARTMENT, ROCKFORD, ILLINOIS

APRIL 27, 1993

Mr. Chairman and members of the Subcommittee, I am Diane Voneida, Director of the Community Development Department for the City of Rockford, Illinois and past president of the National Community Development Association (NCDA).

As you may know, NCDA is a membership organization representing more than 500 local governments that administer federally-supported community development, housing and human service programs. Since 1968, NCDA has been at the forefront in securing effective and responsive housing and community development programs for local governments.

I am pleased to have this opportunity to testify before the Subcommittee on behalf of NCDA as well as other national organizations representing local government elected and appointed officials, including the U.S. Conference of Mayors (USCM), the National League of Cities (NLC), the National Association of Counties (NACo), the National Association for County Community and Economic Development (NACCED) and the Association of Local Housing Finance Agencies (ALHFA), on the importance of the HOME Investment Partnerships (HOME) program in addressing the critical affordable housing needs of our communities.

Mr. Chairman, the organizations I have mentioned above represent hundreds of communities that strongly supported the enactment of the Cranston-Gonzalez National Affordable Housing Acts of 1990, which brought us the HOME program. After a decade of federal disinvestment in housing and community development, we were encouraged by the additional resources and opportunities the HOME program afforded local governments and their low-income residents.

Local governments continue to strongly support the HOME program since its enactment two and a half years ago and are committed to making the program reach its potential for becoming a truly flexible and effective federal housing block grant program. Without HOME, communities would be unable to leverage the kind of public and private resources for affordable housing that they are able to leverage and, in fact, many of the projects that are being assisted now would not be able to move forward at all.

Since its beginning, HOME has been labeled as "unworkable" by supporters and critics alike because of its complicated and cumbersome requirements. And in fact, the program mired by legislative and regulatory contradictions did have a difficult and slow beginning. The Housing and Community Development Act of 1992 subsequently addressed a number of programmatic inconsistencies in the original legislation, providing states and local governments with much needed flexibility in many areas.

While I do agree that some elements of the program continue to be difficult, and extremely time consuming, HOME is far from "unworkable." The question is whether States and local governments, and private and nonprofit developers can significantly increase their capacity as well as commit valuable financial and staff resources to take advantage of HOME's various program options. As the program stands now, HOME permits a wide range of activities in theory, but in "real life" the program is less than truly flexible and responsive to diverse local housing conditions and market needs. We have enclosed a detailed listing of statutory and regulatory recommendations by the aforementioned organizations. We believe the adoption of these recommendations will greatly enhance the operation and implementation of HOME and fulfill its potential by becoming a truly flexible and responsive housing block grant.

Mr. Chairman, I would like to briefly share with you my experience in Rockford as we have worked diligently to get HOME up and running. According to HUD data, Rockford, Illinois, is one of the top performers in the country in terms of obligation and expenditure of HOME funds. We have essentially committed all of our FY92 funds and are looking to begin committing our FY93 allocations in the near future. Why have we successfully expended HOME funds when many communities continue to struggle to get their programs off the ground? We essentially followed three simple rules: 1) We stayed abreast of the program in its formative stages of legislative and regulatory development; 2) We did not attempt to reinvent the wheel, but rather we took advantage of existing local programs that can be implemented through HOME with minor modifications; and 3) In order to adequately address our rental housing need, we utilized the Community Development Block Grant (CDBG) pro-

gram, which provides much more flexibility in meeting our community's rental housing needs than the HOME program.

First, by closely tracking the HOME program's developments and taking advantage of every opportunity for training, my staff and I were able to put together program designs, financing mechanisms, applications, and legal documents essentially ready-to-go when the HOME Notice of Funding Availability was issued last year. HUD, in conjunction with NCDA and other national organizations, did an excellent job of keeping me and my colleagues across the country well informed about legislative and regulatory developments affecting HOME.

Considering the number of HUD regulations, notices, and memoranda distributed over the past two years, it has not been easy to stay current on the numerous HOME changes and clarifications. Since the beginning of HOME, HUD has published or issued nearly 70 HOME-related documents to date, many with significant policy implications on program operation. Certainly, HUD is not entirely at fault for over-regulating this program; many of the regulations were driven by the complexities of the legislation itself. In order to further enhance and develop a strong network of housing providers, I strongly believe that extensive training and technical assistance must be provided to states and local governments as well as nonprofit developers on a continuous basis. HUD's Office of Affordable Housing Programs, to its credit, has made great efforts to get the technical assistance out to communities. Currently, NCDA, in conjunction with a number of national state and local government organizations, with the support of HUD, is working to create a HOME technical training organization. This entity will coordinate and monitor training and technical assistance efforts for states and local governments to further expedite the use of HOME funds.

Mr. Chairman, I would like to illustrate for the members of this committee the tight time-frame state and local administrators of HOME, as well as HUD staff, have been working under to implement the HOME program. The following are the sequence of major legislative and regulatory events since the passage of the Cranston-Gonzalez National Affordable Housing Act on November 28, 1990.

- Proposed HOME Regulations Published March 19, 1991.
- Interim HOME Regulations Published December 16, 1991.
- Notice of Fund Availability (NOFA) Published January 13, 1992.
- States and Local Governments Begin Receiving HOME Funds as Early as April—Most Obtained Funding in the Summer of 1992.
- Housing and Community Development Act of 1992 Signed into Law on October 28, 1992—Providing Significant Modifications to HOME.
- HOME Second Interim Regulations Published on December 22, 1992—making important regulatory modifications to HOME.
- Currently Pending are Two Rules—Proposed and Interim—Providing Additional Changes and Adjustments to HOME.

As you can see, Mr. Chairman, much has taken place over the past two and a half years since HOME was signed into law. Indeed, an enormous amount of local staff time and personal commitment was required to stay abreast of all these issuances and developments at the federal level.

I might add that the Community Development Block Grant (CDBG) program, which is now one of the most successful and, unfortunately more recently, one of the most misrepresented federal programs at least at the federal level, also had a difficult beginning nearly 20 years ago. Other less complex HUD programs such as the Rental Rehabilitation program also experienced difficulties at the outset. The learning curve, I feel, is slowly but surely catching up with the high expectations of the authors of the HOME program.

The second rule followed by the City was not to reinvent the wheel in designing our local HOME program. Rockford's Department of Community Development has administered two successful housing programs funded through the Community Development Block Grant program—a first-time homebuyer program and an existing homeowner program. While we had to modify the existing CDBG funded program to comply with the new HOME requirements, in particular the resale restrictions for first-time homebuyers, the restructuring of existing programs turned out to be much easier than developing a program from scratch.

The final approach we adopted to expedite the expenditure of our housing resources was to utilize CDBG for rental housing. Due to the overly complicated and prescriptive HOME rental housing requirements, the City could not interest the private sector in partnership efforts in developing rental housing. Another disincentive for Rockford is HOME's time-consuming and staff-intensive annual on-site monitoring requirements for rental housing. Based on the lack of administrative support to administer HOME rental activity and the inflexibility of rental requirements, my

department made a conscious decision to shift rental housing assistance to CDBG which provides greater flexibility for my staff as well as private sector developers and lenders.

Mr. Chairman, developing rental housing for low-income persons is complex and usually requires multiple funding sources. By adding duplicative, contradictory and unnecessary income and rent requirements, the HOME program makes financing such projects a nightmare for those who must implement and keep track of the program. Our concern is that if we do not work together to make some fundamental changes to the HOME rental provisions and regulations, decisions about the types of housing activities to be pursued at the local level will be driven more by how to avoid complex federal requirements rather than on local housing needs. To address this problem, we propose that the project and program wide targeting requirements contained in the current law be replaced with a single requirement, consistent with ownership requirements, that permit 100 percent of the funds be spent on rental housing activities which benefit those at 80 percent of median or less. In addition, current law rent restrictions should be replaced with a single standard permitting rents up to the fair market rents (FMRs).

Another important issue for the future success of HOME, Mr. Chairman, is the non-federal matching requirements, which continue to be the most frequently cited reason why jurisdictions may be unable and unwilling to participate in the HOME program in the future. While we recognize the importance of promoting public, private and nonprofit partnerships in producing affordable housing and increasing the net resources designated for such activities, we find the current match structure to be a major obstacle to full and effective participation by all communities. The members of local government organizations strongly support retaining the objective of local commitment and accountability; however, we also support maximum participation in the program in order to strengthen political and neighborhood support for HOME in our communities. In order to ensure maximum participation for communities as well as increased housing assistance for low-income persons, we must modify the existing matching requirements.

For these reasons, we recommend replacing the current two-tiered match of 30 percent for new construction and 25 percent for all other activities with a leverage requirement similar to that which was used in the Rental Rehabilitation and HoDAG programs. The leverage requirement would ensure administrative efficiency and promote the expansion of overall housing resources dedicated for HOME-assisted activities. The current HOME match, which does not recognize private sector resources as legitimate forms of contribution, effectively discourages public-private partnerships in addressing our housing needs. By emphasizing public resources over private, I believe we are missing an opportunity to access the more abundant resources available through private sector lenders and investors.

In a recent meeting with HUD Secretary Henry Cisneros, mayors from throughout the country identified the HOME match as the most critical obstacle to future participation. We vigorously urge the Subcommittee to revisit the burdensome match requirement and to provide a more responsive and flexible approach, such as the leverage mechanism, for securing the commitment of participating communities while increasing the overall resources designated for housing.

Mr. Chairman, we are hopeful that HOME will one day become a well-recognized and effective housing block grant program as envisioned during its creation. The new Administration's strong support for the HOME program as reflected in the $1.6 billion FY94 budget request and the HUD Secretary's commitment to making HOME more responsive and flexible for states and local governments, clearly signals a new beginning for the HOME program. In fact, HUD has recently packaged a set of regulatory modifications, currently under review at the Office of Management and Budget (OMB), that will greatly improve HOME operations and enhance the rapid expenditure of HOME funds. We strongly recommend that the Subcommittee quickly approve this interim rule once it is forwarded for your review.

Mr. Chairman, we are also encouraged by Congress' action last year, which provided significant modifications to the program through the Housing and Community Development Act of 1992. The changes made to the resale restrictions, administrative allowance, and new construction provisions, as well as a number of other legislative improvements, provide much needed flexibility in the program.

Mr. Chairman, I would also like to take this opportunity to comment on how gratifying it is to witness the kind of cooperation and partnership the new Administration and the Subcommittee demonstrated earlier this year in resolving the HOME administrative allowance issue through a joint letter clarifying Congressional intent. The letter, signed by House and Senate Banking Subcommittee chairmen and Ranking members, provided HUD with the necessary information to re-

solve the administrative cost issue. We hope this positive spirit of collaboration continues as we work to further improve the HOME program.

Mr. Chairman, local governments are ready to work with you and members of the Subcommittee to ensure and facilitate effective and efficient administration of HOME at the local level. We thank you again for the opportunity to present the views of national organizations representing local government elected and appointed officials on the HOME program. We look forward to your continued support and leadership in addressing the critical affordable housing needs of our communities.

RECOMMENDED LEGISLATIVE AND REGULATORY CHANGES TO HOME AND CDBG

PREPARED BY THE NATIONAL ORGANIZATIONS REPRESENTING LOCAL GOVERNMENTS

The national organizations listed below, representing local government elected and appointed officials, appreciate the efforts of the Clinton Administration and the Congress in addressing a number of problems associated with implementing the HOME Investment Partnerships program. Despite these efforts, those local government officials charged with its implementation say it continues to suffer from a number of legislative and regulatory problems which are impeding its workability as a program to expand the supply of affordable housing, particularly rental housing. On their behalf and that of the communities they serve, we seek reasonable remedies of these problems at the earliest possible time. Moreover, a recent housing related statutory change to the Community Development Block Grant program necessitates a technical change. To this end, the following legislative and regulatory changes are recommended:

Legislative

1. **Matching Requirements**—replace the current two-tiered match of 30 percent for new construction and 25 percent for all other activities with a leverage requirement similar to that which was used in the Rental Rehabilitation and HoDAG programs. The leverage requirement would provide that a Participating Jurisdiction invest in HOME-assisted housing an amount at least equal to the total amount of HOME funds from other sources, including all of the existing forms of match, private sector loans, and other federal resources such as the Low-Income Housing Tax Credit. The current economic recession continues to plague cash-strapped local governments. A number of communities have pointed to the matching requirement as an impediment which will prevent their participation in the program. In addition, the match waiver provision misses the mark, as several obviously severely fiscally distressed jurisdictions will receive only a partial waiver. The leverage requirement fulfills the purpose of the match by combining additional resources with HOME. It also will facilitate public-private partnerships by giving credit for private sector loans.

2. **Rent Calculations**—replace the existing requirement that eligible rental housing bear rents not greater than the lesser of existing Fair Market Rent or an amount not exceeding 30 percent of the adjusted income for a family whose income equals 65 percent of area median, with a requirement that a rent not greater than the Fair Market Rent may be charged. This would increase the program's flexibility and allow it to be used with Section 8. In the event that HOME is used with another program with a more stringent rent requirement, like the Tax Credit, that standard would have to be used.

3. **Targeting Requirements for Rental Housing**—delete the present requirement that a HOME-assisted project must have at least 20 percent of the units set aside for those at 50 percent of median income or less; replace the current pro-amwide targeting of 100 percent of the funds at 80 percent of median or less, and 90 percent of the funds at 60 percent of median or less, with a requirement that 100 percent of the funds be spent on activities which benefit those at 80 percent of median or less. This change would conform the rental housing targeting to that which applies to ownership housing, and it would make it as relatively easy to do rental housing as it is to do ownership housing. While this change would make the program more flexible, it would still require that when used with another program with deeper targeting that targeting be met. It is anticipated that in the absence of a targeting requirement below 80 percent of median that deeper targeting would still be achieved, which was the experience under the HoDAG and Rental Rehabilitation programs.

4. **Monitoring Requirements**—rather than an annual on-site review of each project, require that Participating Jurisdictions prepare, subject to HUD approval,

a monitoring plan which enables them to assure compliance with the program's occupancy restrictions. This would also provide greater flexibility, making it easier to do rental housing. In addition, it would save administrative costs, allowing them instead to be used for housing production.

5. **CHDOs**—modify the current definition of Community Housing Development Organization by eliminating the neighborhood representation requirement and making it consistent with other federal programs such as the Low-Income Housing Tax Credit. This will foster the participation in HOME by a wider array of experienced non-profit entities.

6. **CHDO Activities**—permit CHDOs to undertake any eligible HOME activity within the CHDO set-aside funds. This would enable them to undertake housing rehabilitation and administer tenant assistance programs in addition to housing development.

7. **Recapture of Funds Used for Homeownership**—modify the requirement that funds used for home ownership which are recaptured be used only for home ownership, allowing them instead to be used for any HOME-eligible activity. This will increase the program's flexibility.

8. **Use of HOME Funds as a Short Term Construction Guarantee**—amend the statute to permit HOME funds to be used for construction loan guarantees for single and multifamily housing. Using HOME funds to guarantee private construction loans will leverage additional construction activity without actually spending the funds.

9. **Long Term Loan Guarantee Program Within HOME**—amend the statute to authorize a long term loan guarantee program under HOME comparable to the Section 108 loan guarantee program under CDBG in order to allow Participating Jurisdictions to undertake large scale rental projects.

10. **Use of HOME Funds for Program Administration**—clarify that the 10 percent of a Participating Jurisdiction's allocation which can be used for program administration applies to the funds until they are expended. This is a technical change which would conform the statute to what is current practice.

11. **Housing Services Under CDBG**—eliminate the current law requirement that housing services activities under CDBG be subject to the 20 percent administrative cap. This is a technical correction. The law prior to the 1992 amendments did not place these activities under the cap.

Regulatory

1. **HOME Activity Delivery Costs**—conform the treatment of activity delivery costs under the HOME program to that under the CDBG program, i.e., allow them to be charged to the eligible activity with which they are associated. In addition, include the cost of monitoring project compliance as an eligible delivery cost.

2. **Definition of HOME Project**—permit Participating Jurisdictions the flexibility to define what constitutes a HOME project rather than limiting a project to site(s) or building(s) within a four block area.

3. **Use of HOME Funds for Initial Project Operating Reserves**—remove the restriction in the regulations which limits funding for a project's operating deficit reserve during rent-up to 18 months. Instead of an arbitrary time limit, Participating Jurisdictions should be required to maintain evidence of an agreement with the mortgage lender that funding for such a reserve, once no longer needed, will be returned for use in HOME-eligible activities. This would facilitate use of HOME funds in risk-sharing arrangements by Participating Jurisdictions. Not only should this be permitted for new construction and sub rehab projects, but for mod rehab projects as well.

4. **Increase in FHA Mortgage-Insurance Limits**—immediately publish the 20 percent increase in the 221(d)(3) multifamily mortgage insurance limits (which establishes the maximum HOME subsidy limit) authorized by the 1992 amendments in order to allow use of the higher limits for HOME-assisted rental housing. This increase is critical to making projects feasible in high cost areas.

5. **Equity Investments for Project Financial Work-Outs**—clariiy that equity investments made as part of the financial work-out of an existing low-income housing project are an eligible use of HOME funds. The current regulations require the property to be acquired, rehabbed, or constructed in order for HOME funds to be used. This is an unnecessary requirement and may undermine use of HOME funds to preserve affordable housing where that is appropriate.

6. **C/MI System Projects**—permit Participating Jurisdictions to establish as projects with the Cash and Management Information System (C/MI) home ownership *programs* rather than a separate project for each household assisted.

7. **Pre-environmental Clearance Cost**—make pre-environmental clearance activity costs (appraisal, lead/asbestos inspections, energy calculations, consultants) reimbursable activity delivery costs in order to permit Participating Jurisdictions to undertake them.

8. **Additional Forms of Matching Contributions**—in the event that the current law matching requirements are not changed, clarify that the difference between acquisition cost and the appraised value of land or other real property, acquired with or without federal resources, is eligible match. The regulations currently allow such a differential to count in the case of properties acquired from RTC for affordable housing.

9. **Projects Out of Compliance**—clarify that, in the event that a project which a Participating Jurisdiction funds falls out of compliance with the requirements of HOME, the jurisdiction shall first seek to return the project to compliance, then if necessary make reasonable efforts to see that the project developer repays the HOME subsidy; but in the event that the developer/owner cannot repay the subsidy, permit HUD to reduce future grants but not require the jurisdiction to repay such subsidy to its HOME trust fund or to HUD.

10. **Housing Quality Standards and HOME-Assisted Housing**—exempt housing units receiving $5,000 or less in HOME funds for weatherization, emergency assistance, home repair, or accessibility from Section 8 Housing Quality Standards. This would permit Participating Jurisdictions to address emergency or life threatening problems, or prevent further deterioration of a unit.

11. **Environmental Review**—provide an exemption from the requirements for rehab of one to four units and all owner-occupied rental and home ownership projects and provide flexibility by permitting one environmental review for projects receiving both HOME and CDBG funds. Where the HOME program determines a project to be rehab for environmental review purposes, allow that determination to supersede that of HUD's environmental review staff.

12. **CHDO Operating Funds**—clarify that, at the discretion of the Participating Jurisdiction, the up to 5 percent of its allocation which may be made available for CHDO operating assistance may be taken from within or outside the CHDO set-aside.

13. **Drawdown of HOME Funds**—increase from 15 to 30 days the time frame within which funds drawn down must be spent. The 15-day time limit is particularly burdensome for urban counties and consortia which deal with multiple subrecipients.

14. **Definition of Net Proceeds for Homeownership**—clarify that the definition of net proceeds includes improvements made to the property by the owner.

15. **Spending HOME Funds**—clarify that Participating Jurisdictions may commit FY 1993 HOME funds prior to having fully committed FY 1992 funds in order to permit them to take advantage of opportunities such as the opportunity to acquire land for affordable housing.

16. **Recognition of Match**—should the existing matching requirement not be changed as recommended above, allow Participating Jurisdictions to begin accruing match for HOME eligible activities as soon as they have signed their FY 1993 HOME agreements, rather than waiting until they begin drawing down their FY 1993 funds.

17. **C/MI System for Tenant Assistance**—Eliminate the requirement that specific information (social security number, amount of tenant contribution, amount of subsidy) be provided up front on each tenant to be assisted with HOME funds, requiring instead that such information be contained in the completion report. Participating Jurisdictions should be required to indicate up front the number of tenants expected to be assisted and the total amount of subsidy expected to be provided.

HUD has indicated that the following changes, which were the subject of previous recommendations made by these organizations, will be included in an Interim Rule to be published in April. We very much appreciate the Administration's responsiveness in making these changes.

1. **Definition of SRO under HOME**—conform HOME's definition of Single Room Occupancy projects to that used in other federal programs such as the McKinney Homeless and Shelter Plus Care programs, thus allowing HOME to be used in combination with these programs.

2. **Qualification as Affordable Ownership Housing**—eliminate the requirement that, when using HOME funds for acquisition or rehabilitation of ownership housing, Participating Jurisdictions obtain a waiver of the 203(b) FHA single family mortgage limits, permitting them instead to use up to the 95 percent of average area purchase price allowed by statute. Having to obtain a waiver of the lower 203(b) limit, whether a community is a high cost area or not, is an unnecessary hurdle.

3. **Definition of Affordable for Subsequent Low-Income Borrower**—eliminate the requirement that first-time home ownership units be made affordable to the subsequent low-income borrower at a price that is 30 percent of 75 percent of median income. The statute requires that the unit be affordable, but does not specify the actual amount. This should be left to the discretion of the Participating Jurisdiction.

4. **Deed Restriction Locking in Affordability for Rental Units**)—the requirement that rental housing's affordability requirements be met with a deed restriction should be modified to allow the Participating Jurisdiction the flexibility to determine the appropriate enforcement mechanism through the "binding commitment" required by the statute. There is no deed restriction required for use of HOME for ownership housing.

5. **Homeowner Rehab, Definition of Income**—eliminate the requirement that Participating Jurisdictions use the Section 8 income verification for HOME because it factors in homeowner equity and inflates the available resources for homeowners with fixed incomes, such as the elderly, perhaps disqualifying them for HOME-assisted rehab.

6. **Construction Financing Commitment**—eliminate the requirement that a construction financing commitment be in place before land is acquired with HOME funds for a HOME-assisted project. This is not possible as developers do not have detailed drawings and cost estimates at this stage, a prerequisite to obtaining construction financing.

7. **Six-Month Start Requirement for New Construction**—extend from six months to twelve months the requirement prohibiting the lending of HOME funds for projects which cannot be under construction within that time frame. Given environmental requirements, public review, and varying deadlines for multiple subsidy sources, six months is not enough time.

National Association of Counties
National League of Cities
U.S. Conference of Mayors
Association of Local Housing Finance Agencies
National Association for County Community and Economic Development
National Community Development Association

TESTIMONY ON THE HOME INVESTMENT PARTNERSHIPS PROGRAM

TRUDY P. McFALL

EXECUTIVE DIRECTOR OF THE MARYLAND COMMUNITY DEVELOPMENT ADMINISTRATION, ON BEHALF OF THE STATE OF MARYLAND AND THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES

APRIL 27, 1993

Mr. Chairman, Senator Bond, and members of the Subcommittee, I am very pleased to testify this morning on the HOME Investment Partnerships (HOME) program.

I am Trudy P. McFall, Executive Director of the Maryland Community Development Administration (Maryland CDA). I am testifying this morning on behalf of the State of Maryland and the National Council of State Housing Agencies (NCSHA). NCSHA is a national, nonprofit organization created in 1970 to assist its members in advancing the interests of low and moderate income people through the financing, development, and preservation of affordable housing. NCSHA is the only representative of state or local government exclusively devoted to the full range of affordable housing issues.

NCSHA's members are the state agencies which finance affordable housing in all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. State Housing Finance Agencies (HFAs) have issued $74 billion in Mortgage Revenue Bonds (MRB) to finance more than 1.5 million lower income families' home purchases and $26.3 billion in bonds to finance over 500,000 rental apartments for such households.

NCSHA's members also allocate the Low Income Housing Tax Credit (Tax Credit), which, since 1987, has financed over 500,000 apartments for low income families. Collectively, HFAs operate more than 600 affordable housing programs, which range from home ownership to homeless initiatives.

HFAs are substantial players in the housing finance market with combined assets of over $78 billion. Although they are state-chartered, HFAs are required to be self-sufficient and receive no operating funds from their state governments.

In 34 states, NCSHA's members administer over $600 million in HOME funds to support a wide range of affordable housing programs for low income families. In additional states, HFAs contribute to HOME administration through project evaluation and underwriting.

Although, as with any complex new program, start-up on HOME was somewhat slow, most state HOME programs are now well underway. I am pleased to have this opportunity to report the preliminary results of an April 15 NCSHA survey of state HOME activity, as well as to give you some examples of the innovative projects and programs for which HFAs have already approved HOME funding.

I would like to make three points regarding HOME:

(1) The HOME program marks a major step forward in federal housing policy which states enthusiastically support;

(2) Despite a number of initial impediments, which you went a long way toward alleviating in the Housing and Community Development Act of 1992, states have made substantial progress in implementing HOME and many have awarded almost 70 percent of their FY 1992 funds; and,

(3) The Clinton Administration and Congress can still help states achieve the full potential of HOME through further simplification.

States Enthusiastically Support the HOME Program

State HFAs are enthusiastic about the HOME program and the potential it has to expand the supply of decent, affordable housing. We want to thank this Subcommittee for your essential role in developing the program. We are proud to have worked closely with you in its development, and are very pleased to now have the opportunity to implement it.

The HOME program marked a major new direction in and new federal commitment to affordable housing policy. In enacting HOME, you recognized the housing capacity states have developed over the years and offered us a new federal-state partnership. Recognizing the diversity of housing needs among and within states, you entrusted us with the opportunity and responsibility to expend federal housing funds according to our best judgment. You provided us the flexibility to address those needs through a wide range of housing activities, ranging from tenant-based rental assistance to light and substantial rehabilitation, new construction, and acquisition of either ownership or rental housing. This flexible partnership is the essence of the HOME program.

We want to thank you for recognizing the active involvement and successful experience of states in providing affordable housing by allocating 40 percent of HOME funds to states to administer. By building on the many innovative and successful housing partnerships we have developed with both for-profit and nonprofit affordable housing providers, we believe that we are already living up to your trust and will continue to fulfill your expectations for the program.

States Have Awarded Significant Amounts of HOME Funds

In recent months there has been a great deal of attention given to the small amount of HOME funds which HUD's Cash and Management Information System (C/MIS) shows as committed and disbursed. As of April 21, that amount was nine percent committed and just under five percent disbursed for all participating jurisdictions. (This does not include any funds expended for administrative costs.)

These numbers do not accurately portray the actual level of state HOME activity. Most states have awarded funds to specific projects and programs which are not yet reflected in HUD's numbers. Projects are only accounted for in the C/MIS when a number of steps have been completed beyond the initial project award. Some of these, such as completing environmental reviews can take several months, as can identifying specific tenants and homeowners for rental assistance and ownership programs.

NCSHA's April 15 survey was received by 37 states. The preliminary results show that of the 32 respondents, 26 reported having awarded over $165.5 million, or 67 percent of their total HOME allocations of $247 million, to programs or projects. The others reported having made no HOME awards or having only set funds aside for local governments, although the first project awards are imminent. Approximately another 10 percent of federal HOME funds has been set aside for jurisdictions' administrative expenses. These funds were not accounted for in our survey.

Of the funds awarded, approximately 46.1 percent will serve an estimated 5,000 low income homeowners, primarily through homeowner rehabilitation programs. Another 40.8 percent has been allocated to rental programs to serve an estimated 5,200 tenants. Twelve states have allocated $12.7 million, 7.6 percent of the total,

to tenant-based rental assistance for an estimated 2,400 households. (The final number of households assisted under each activity will be larger since some states did not provide estimates for the number to be assisted.)

Because many states have recently completed their first or second funding rounds, over the next few months there will be a substantial increase in commitments on the HUD system. In addition, many states are close to approving additional project awards.

New York, for example, will announce $19 million in HOME project awards in early May. Because New York requires projects to be virtually ready to go when they are approved, funding for these projects will be expended quickly. New York is also about to begin its next funding round, which will include the remaining FY 1992 and all FY 1993 funds. New York was unable to begin its first funding round until Fall of 1992 because the state legislature did not authorize the agency to spend the money until August, 1992. This delay will not recur in future years.

In looking at the state allocation figures, it is important to note that states have two years to commit funds and five to expend them. As a result, it is not surprising that outlays for the first fiscal year HOME appropriation are not yet very high.

A number of factors caused initial delays in HOME implementation. Although HOME was authorized in November, 1990, HUD did not publish the interim rule until December, 1991. Due to the need to produce the first-ever congressionally-required Comprehensive Housing Affordability Strategies (CHAS) and HOME program descriptions before receiving their HOME funds, most states did not actually have access to their first HOME funds until late spring or summer of 1992.

Statutory problems, which Congress largely addressed last year, and regulatory impediments also caused states substantial delays in fully developing their programs. The sheer complexity of HOME also slowed states in announcing funding rounds. With the many eligible activities, states had to in effect develop several new programs simultaneously. All of these factors delayed the initial start-up of the program.

The experience under HOME is comparable to that under other new housing programs and should not be seen as cause for alarm. The Tax Credit, for example, was authorized in 1986 but did not reach its full allocation potential until 1989, at which time a number of programmatic amendments were also made. The CDBG program also took time to come up to speed and required perfecting legislation.

Now that state programs and procedures are basically developed and the most significant legislative and regulatory impediments have been removed, funds should flow much more smoothly and quickly. Virtually every state expects to have fully awarded FY 1992 and begun awarding FY 1993 funds by December 31, 1993. Several states anticipate awarding their full FY 1993 HOME allocations by December 31.

How the Clinton Administration and Congress Can Help

States look forward to working with the Clinton Administration on implementation of HOME. We commend the Administration for its plans to simplify the program. Although states have made substantial progress in implementing HOME, our task could still be greatly eased by further simplification of the regulations and a few legislative changes. We appreciate the regulatory improvements to HOME HUD has already made and look forward to further helpful changes in the pending proposed and interim rules.

Under the previous administration, HUD was unwilling to recognize the true spirit of HOME by maximizing state flexibility. HUD felt constrained to issue detailed and complex regulations on virtually every provision in the law instead of allowing jurisdictions to develop their own interpretations. When HUD did not provide guidance, jurisdictions were afraid to proceed for fear that HUD would then find fault with their programs.

Contrast this with the state experience under the Tax Credit program, under which the IRS has allowed states to develop their own programs with relatively little interference. With this freedom has come accountability, and states have met the challenge by responsibly administering this substantial federal subsidy.

We are willing and eager to accept full responsibility for our administration of the HOME program. As HUD continues to formulate its HOME policy, it is critical that the Department keep in mind that Congress intended HOME to be a flexible program run by state and local governments. HUD should commit itself to avoiding micromanaging HOME and make it clear that state and local HOME administrators have the autonomy to make their own decisions about all program design and implementation issues that are not explicitly disallowed by law. Any new regulations that HUD issues should reflect this spirit.

Proposed Regulatory and Legislative Changes

NCSHA has submitted to HUD, at their request, the attached list of specific legislative, regulatory and administrative recommendations we believe would make HOME operate even more effectively. We would welcome any additional regulatory or legislative initiatives from the Department to provide even greater flexibility.

Congress corrected virtually all (and all of the most pressing) statutory problems with HOME in last year's housing authorization bill. These amendments have already freed states to proceed with HOME activity that was severely stalled.

There are a few remaining amendments which we believe would be beneficial, including:

- Reduce the HOME match to no more than 25 percent for all activities;
- Allow 100 percent of the match to be met with the full face value of publicly-issued debt repayable from project revenues;
- Conform HOME monitoring requirements to the Tax Credit;
- Expand the CHDO set-aside to include a wider range of nonprofits; and,
- Allow use of the 9 percent Tax Credit with HOME.

These and a few others are described in more detail in the attached submission to HUD. If there is a legislative vehicle this year, we ask you to include these proposed amendments.

The Maryland State HOME Program

The Maryland CDA has elected to utilize its HOME funds in conjunction with existing state-sponsored housing programs and independently through a program called the Innovations Fund. The state is administering a centralized program, and the funds are offered as zero percent deferred payment loans which require repayment when the property is sold or discontinued as low income housing after the low income compliance period. By offering such attractive terms, the state intends to serve households at or below 30 percent of the area median income for rental housing projects and 55 percent of state median income for home ownership projects.

Approximately two-thirds of Maryland's FY 1992 funding is being used in combination with on-going CDA housing programs. The funds are used to fill gaps in financing to make projects feasible and to increase the number of low income persons served in state programs, home ownership programs, and special loans programs.

The state has set aside $2 million in HOME funds from FY 1992 for the Innovations Fund and will set aside an additional $2 million for FY 1993. The Innovations Fund was created to test new and innovative ideas for providing affordable housing. The programs, projects, and activities funded through the Innovations Fund must not be permitted or undertaken within regular CDA programs. Programs may replicate CDA programs not currently being undertaken because funding is not available or the state has elected for policy reasons not to operate them. When such programs are undertaken, the HOME funds may be combined with ongoing CDA programs.

Local governments, nonprofit sponsors, and developers have applied for these funds. The state has held four rounds of funding to date and awarded nearly $1.5 million in HOME funds. Applications are reviewed for HOME eligibility and rated on innovation, lowest incomes served, geographic distribution, and lowest cost.

Other Innovative State HOME Programs

There are numerous other examples of innovative programs and projects funded through state HOME programs.

The Michigan State Housing Development Authority has allocated $1.5 million of its HOME funds to community-based nonprofits which will use their rehabilitation programs to create opportunities for employment and job training for persons currently receiving public assistance. Under this project, called the 21st Initiative, grantees will rehabilitate 64 units of single and multifamily housing, providing 50 full-time equivalent training slots. The goals of the program are to provide employment experience and job skills for neighborhood residents and to increase the direct benefit the neighborhood receives from the investment of HOME dollars. Emphasis is on long-term training and neighborhood-based support to resolve barriers to employment. Grantees will use contacts with private contractors to support transition to permanent jobs.

The Illinois Housing Development Authority (IHDA) has set aside $1.5 million to assist a network of mental health and developmental disability service providers to rehabilitate existing group homes, purchase and rehabilitate houses to create group

homes, and provide tenant-based rental assistance for special populations. The network of nonprofit service providers will provide the supportive services component for these projects. IHDA has also approved tenant-based assistance programs for targeted client populations such as victims of domestic violence.

The Nevada Housing Division has allocated over $400,000 in HOME funds to two Community Housing Development Organizations (CHDOs) to purchase properties under the Resolution Trust Corporation's (RTC's) Affordable Housing Program. Both properties will provide living facilities for people participating in self-sufficiency programs, while reducing the federally-held inventory of foreclosed housing.

The Missouri Housing Development Commission (MHDC) is virtually the only agency to date to have successfully implemented a first-time homebuyer program using HOME funds. MHDC has combined $2.9 million in federal HOME funds with $2.8 million from its own fund balances to provide downpayment assistance to first-time homebuyers. The amount of downpayment assistance provided will increase as the homebuyer's income decreases, with the lowest target income being 55 percent of median income. MHDC has enlisted the real estate community, local lenders, the FHA, and Fannie Mae as partners in this venture.

The Arizona Department of Commerce has committed $204,000 in HOME funds for rehabilitation of two wings of a vacant hospital which the local Association for Retarded Citizens, in partnership with the local public housing authority, is converting into one and two bedroom handicapped-accessible units for the handicapped and elderly. The other two wings have already been converted to a Senior/Handicapped day care center and kitchen facility in which retarded citizens work to provide meals-on-wheels to elderly in the surrounding area. Labor for the conversion will be provided by skilled prison-labor under the DUI program.

These are only a few examples of how states are providing affordable housing through HOME funds.

Conclusion

Congress can be proud of the program it created in HOME. Despite the initial impediments and some remaining frustrations, states have moved aggressively and effectively to implement this program. Over the next few months and the coming year, you can expect to see large amounts of state HOME dollars allocated to projects and programs across the country. With HUD's help and yours, HOME will live up to the expectations you held when you created it.

Recommendations to the Clinton Administration for the HOME Investment Partnerships Program

NCSHA commends the Clinton Administration for its plans to fully fund and simplify the HOME program. Working together with the federal government and the private and nonprofit sectors, states and localities will now be able to more effectively deliver decent, affordable housing to their communities.

We appreciate the regulatory improvements to HOME HUD has already made and look forward to further helpful changes in the pending proposed and interim rules.

As HUD continues to formulate its HOME policy, it is critical that the Department keep in mind that HOME was designed to be a flexible program run by state and local governments. HUD should commit itself to avoiding micromanaging HOME and make it clear that state and local HOME administrators have the autonomy to make their own decisions about all program design and implementation issues that are not explicitly disallowed by law.

Below is a list of specific legislative, regulatory and administrative recommendations we believe would make HOME operate even more effectively. We understand that some of these changes will be included in the upcoming rules and look forward to seeing them implemented. We encourage HUD to adopt our other recommendations as well.

Legislative Recommendations

Level the HOME Match to No More than 25 Percent

Although the current match of 30 percent for new construction and 25 percent for all other activities is a substantial improvement over the previous three-tiered match, this two-tiered match still unfairly penalizes state and local governments which need new construction to address their housing needs. In addition, even the simpler tiered match creates unnecessary administrative burdens for the states and HUD. A flat match would be easier to track. We recommend that the Clinton Ad-

ministration ask Congress to adopt a uniform HOME match of no more than 25 percent.

Include the Full Face Value of Publicly-Issued Debt as Match

Congress last year agreed to permit 25 percent of the HOME match to be met with the full face value of public debt repayable from project revenues. HUD's regulations had previously made this impossible.

Neither the HOME statute nor its legislative history suggests that matching funds must be permanent grants or that project-based repayment of such funds to service debt should not be permitted. In addition, the statute places no limitation on the sources of "cash contributions." Accordingly, NCSHA requests the Administration to ask Congress to allow 100 percent of publicly-issued housing debt repayable from project revenues to qualify as match. By the same token, the full face value of general obligation bonds dedicated to HOME-eligible housing should count as match whether or not the funds are permanently committed to the project. In fact, we see no statutory reason why any state contribution should be "permanent," rather than in the form of a loan.

Most, if not all, of such debt devoted to HOME projects must be diverted from the total available to that state under its private activity bond cap. Such debt represents a real commitment of state resources to HOME. In most states, the cap is nearly fully subscribed by the many public purposes which already compete for such funds. So, any portion of the cap amount allocated to HOME projects would require sacrifice of other state and local needs. Moreover, the issuing jurisdiction, in practical terms, must stand behind the debt issue even in the case of revenue bonds repayable from the projects financed.

Provide a 100 Percent Match Waiver For All Distressed States

We recommend that HUD request Congress to allow any state which qualifies for a match waiver to receive a 100 percent waiver instead of receiving either a 50 percent or a 100 percent waiver. Distressed states should not be expected to provide any match to receive the federal housing assistance they so desperately need.

We understand that HUD intends to publish its proposed criteria for a state match waiver formula in the proposed rule. This is very important because for planning purposes states need to know now whether they will qualify for a waiver. We suggest that at a minimum, any state which would qualify under the waiver formula for local governments automatically receive an FY 1993 match waiver.

Simplify Income Targeting and Rent Calculations

Multiple Income targeting and rent requirements complicate HOME. Currently, all units must serve persons with incomes no more than 80 percent of median, 90 percent of HOME funds expended for rental housing must be for units serving people at 60 percent of median, and 20 percent of the units in each rental project must serve persons at 50 percent of median. To simplify this cumbersome structure, we recommend that the 20 percent at 50 percent per project requirement be eliminated.

Currently, HOME-assisted rental units must bear rents not greater than the lesser of existing Fair Market Rent or rent that does not exceed 30 percent of 65 percent of median income adjusted by unit size. We recommend that gross rents be such that individuals pay as a contribution toward rent not more than 30 percent of 60 percent of median income, adjusted for unit size consistent with the Low Income Housing Tax Credit (Tax Credit). By regulating the tenant contribution rather than the rent level, HOME will be more attractive as a resource to combine with programs like the Tax Credit and McKinney which allow rents to be set higher than the tenant contribution with the difference made up by rental assistance.

We recommend that the income targeting for HOME-assisted first-time homebuyers be based on the greater of area or state median, as in the MRB program, rather than strictly on area medians. Currently, HOME limits must be calculated on a county-by-county basis, requiring tracking of in some cases over 100 median incomes. Calculating the greater of area or state median would greatly reduce the number of individual limits per state, thus simplifying the program.

Conform HOME Monitoring Requirements to the Tax Credit

State HFAs believe that monitoring is essential to ensuring long-term compliance with low income use restrictions. However, we believe the yearly on-site review currently required for HOME is more frequent than necessary. Therefore, we recommend that the HOME monitoring standards conform to the standards NCSHA has advocated for the Tax Credit, under which jurisdictions would perform an annual desk review of tenant files complemented by an on-site review of each project every three years. One federal standard for both programs would ease the administrative burden, especially for projects which utilize both subsidies.

Community Housing Development Organizations

We recommend that the 15 percent set-aside be expanded to include nonprofits other than Community Housing Development Organizations (CHDOs). The CHDO model is only one successful nonprofit model and should not be forced on nonprofits in every state and city. This is particularly a problem for rural states, which often have no CHDOs and cannot even find interested nonprofits which are able to conform to the CHDO definition. While states do not quarrel with providing technical assistance funds and limited operating support to CHDOs, they should neither be forced to develop this particular nonprofit model, nor to lose 15 percent of their HOME funds if they cannot. Nonprofits which fit the nonprofit definition under the Tax Credit program should be able to apply for the 15 percent set-aside. Use of this definition will preclude participation by "sham" nonprofits.

In addition, states which do wish to commit funds to developing CHDOs should be able to use more than the statutory limit of the lesser of 20 percent of the 15 percent set-aside or $150,000 for this purpose. Developing CHDO capacity on a state-wide basis requires more than $150,000.

We also recommend that CHDOs be permitted to undertake any HOME-eligible activity using CHDO set-aside funds. This would enable CHDOs to undertake homeowner rehabilitation and administer tenant-based assistance in addition to housing development. The requirement that the set-aside apply only to housing "owned, developed or sponsored" by a CHDO unnecessarily restricts state HOME programs.

Recapture of HOME Funds for Home Ownership

We recommend that the statute be amended to allow HOME funds recaptured under home ownership programs to be used for any HOME-eligible activity instead of requiring that they be restricted to providing additional ownership housing. This would enable jurisdictions to shift their HOME funding priorities from first-time homebuyers to other eligible populations as the need arose.

Allow Use of the 9 Percent Tax Credit with HOME

Federal law imposes a penalty on the use of the Tax Credit with the HOME program because HOME is considered a federal subsidy. This penalty reduces the Tax Credit percentage from 9 percent to 4 percent of eligible costs and was intended to ensure that combining federal subsidies did not lead to over subsidization. However, since 1990 states have been required to underwrite all Tax Credit projects to ensure they receive no more subsidy than necessary, so this safeguard is no longer needed. The limit on the Tax Credit can mean that there is insufficient equity in a project to make it feasible. This penalty should be eliminated for projects assisted by HOME funds.

Eligibility of Housing Finance Agencies

At least two state Housing Finance Agencies (HFAs) which were designated by their governors to administer the HOME program have been denied direct access to HOME funds by HUD regional offices which have said that the HFA did not qualify as a state. Particularly in one case, Alaska, where the HFA is the only state-level housing agency, this type of impediment is irrational. We recommend that HUD clarify that any state-wide agency designated by a governor to administer HOME is in fact the state HOME administrator and may have direct access to HOME funds. To remove any confusion in the future, we also recommend that the definition of state under the National Affordable Housing Act be amended to include "or any instrumentality thereof."

Regulatory and Administrative Provisions

Administrative Funds

NCSHA was very pleased to hear that HUD intends to amend the provisions of Section 92.206 which require all HOME administrative funds to be spent within the fiscal year, preventing jurisdictions from applying the administrative provisions to FY 1992 funds. Under the announced change, jurisdictions will be able to use HOME funds for administrative purposes regardless of the year in which expended. We believe this change correctly interprets congressional intent and will facilitate state and local implementation of HOME. We look forward to seeing it implemented soon.

States incurred substantial HOME administrative costs before October 28, 1992. They should be able to use the FY 1992 administrative allowance to reimburse themselves for these costs.

HUD should make clear that the prohibition on monitoring, servicing and origination fees for HOME projects does not preclude fees normally charged under other

state, local or federal programs, such as the Tax Credit and MRBs, when those programs are combined with HOME. HUD should also clarify that where the permitted nominal application fees are charged under HOME, these fees may be charged to any applicant, including nonprofits. Forcing a differential fee for nonprofits would be an arbitrary interpretation of the HOME regulation.

HUD should make every attempt to minimize the paperwork required in tracking HOME administrative funds, especially administrative funds passed on to state recipients. Under Rental Rehabilitation, for example, HUD acknowledged that the successful operation of housing programs requires expenditures in excess of 10 percent and eliminated the need for tracking and reconciling administrative expenditures. We encourage HUD to follow this model rather than the more complex CDBG model. We encourage HUD in particular to allow state recipients access to administrative funding on the Cash Management and Information System (CMIS), which would make funds more directly available to state recipients and ease the burden on states.

As under CDBG, project delivery costs, including monitoring, should be considered to be charged to the project, not to the administrative cap. The cost of monitoring will exceed the administrative funds allocation, and HUD has ruled that jurisdictions cannot charge fees to meet this cost.

HOME Allocations

HUD should take action to restore $165,000 in FY 1993 HOME funds to states with no local participating jurisdictions. Under the law, those states should have received an additional allocation of $500,000, but HUD allocated only $335,000 in FY 1993.

Section 202 of the Housing and Community Development Act of 1992 amends Section 216 and Section 217(b)(3) of the National Affordable Housing Act (NAHA) to lower the thresholds for local participating jurisdictions from $500,000/$750,000 to $335,000/$500,000. However, the amendment does not change Section 217(b)(2) of NAHA, which specifies that states with no local participating jurisdictions are to receive an additional $500,000.

During the 1992 Housing Act debate, NCSHA urged Congress not to reduce the minimum amounts received by states, so as to ensure that states receive a sufficient allocation to run a viable statewide program. Congress agreed, and did not amend Section 217(b)(2). As a result, we believe states with no local participating jurisdictions should receive an additional $500,000, not $335,000.

HUD has argued that Congress must have intended to change the minimum, even though it did not, since it left intact a sentence providing that the add-on for states with no participating localities should not be applied if it would force any local jurisdiction's allocation to be reduced below $500,000. The argument that because Congress did not change one provision, therefore it did mean to change another provision (the add-on for states) is a remarkable stretch. The fact remains that Congress did not change the state minimum, and HUD should not change it either.

Match in HOME-Eligible Housing

The 1992 Housing Act clarified that state and local contributions shall be counted as match as long as they are invested in units which "qualify as affordable housing," whether or not those units also receive federal HOME funds. Prior to this clarification, HUD had ruled that only match invested in units receiving the minimum $1,000 in HOME funds could be counted.

We believe HUD should provide maximum flexibility to state and local governments in identifying state and local resources to count as match. Only the broad categories of "qualification as affordable housing" such as income targeting and purchase price (for ownership housing) should be considered. A flexible interpretation will keep states from being forced into any artificial or inefficient use of state matching funds to fulfill accounting requirements.

Although tenant-based assistance is not explicitly mentioned under the definition of qualification as affordable housing, there appears to be nothing that would exclude state tenant-based or project-based assistance programs from counting as match as long as they serve the HOME-targeted population.

In addition, in calculating the portion of the match that is attributable to the proceeds of housing bond issues, HUD should calculate 50 percent of eligible multifamily debt and 25 percent of eligible single family debt. This calculation should be done in aggregate, not on a loan-by-loan basis. A loan-by-loan calculation would be extremely cumbersome and have no discernible purpose.

Other Forms of Match

The 1992 Housing Act gives HUD the authority to identify sources of match not explicitly listed. We encourage HUD to include in the list of eligible match loans

from state housing trust funds that are recycled into HOME-eligible housing, even if they are not permanently committed to a HOME project. We also recommend that HUD include state expenditures for social services linked to a project, such as living assistance provided to persons in housing for the elderly or disabled. In addition, HUD should clarify that donated materials and charitable grants count as match.

Improve Definition of Protect

HUD has defined each HOME-assisted homebuyer as a separate project for record-keeping and other administrative purposes. As a result, a proposal to rehabilitate 30 single family homes becomes 30 separate projects. We recommend that HUD allow jurisdictions to establish as projects in the CMIS homeowner *programs* rather than a separate project for each household assisted. We also suggest that HUD extend the deadline for project set-up reports for FY 1992 at least six months to ease jurisdictions' burden in the first year of the program.

Second, HUD requires a scattered site HOME project to be treated as separate projects unless it is within a four-block area. This is an arbitrary restriction unrelated to the realities of financing housing, particularly in rural areas. We recommend that jurisdictions be permitted to develop their own definition of project.

Environmental Review Process

The environmental review process is very cumbersome and can become burdensome on activities for which very little benefit if any is derived from the review. We recommend exempting the rehabilitation of all 1–4 unit projects and all owner-occupied rental and home ownership projects from this process. We also recommend exempting all projects which involve acquisition only, since they will not disturb the land. Also, for emergency repairs states should be able to obtain a waiver of the historical review required under the environmental review.

We also recommend that any projects assisted with both CDBG and HOME funds should be allowed to use a single review process to eliminate duplication of effort and expense. We also recommend that pre-environmental clearance costs (appraisal, lead/asbestos inspections, energy calculation, consultants) be reimbursable in order to permit jurisdictions to recover their costs for these activities, which often must occur before the HOME funds are drawn down.

Homeownership Resale

The definition of net proceeds under the recapture option for first-time homebuyer projects is inconsistent with the long-term affordability option in that it does not include improvements made by the homeowner. It also does not appear to allow the owner to retain any equity in the home before repayment of the HOME funds. We recommend that the definition of net proceeds be expanded to include improvements and owner equity.

We recommend that HUD clarify that for first-time homebuyer programs states may provide rehabilitation funds at acquisition (such as grants for lead-based paint abatement) without applying the recapture provision. In addition, the 15 or 20 year affordability period is excessive and should be more reasonably related to the amount of HOME assistance provided, as is the case for HOME-assisted rental housing. For example, HOME assistance to a first-time homebuyer of less than $5,000 should require no more than a five-year recapture period, if any.

Purchase Price Limit on Ownership Housing

The HOME statute clearly sets the initial purchase price limit for ownership housing at 95 percent of the area median purchase price. Yet HUD has restricted purchase price to the FHA single family mortgage limits, which even with the increase authorized in the 1992 Housing Act are sometimes lower than 95 percent of median purchase price. HUD should revise its regulation to allow purchase of properties at prices up to 95 percent of the area median price.

We recommend that HUD eliminate the regulatory requirement that HOME-assisted home ownership units conform to an "after-rehabilitation" value limit in addition to the statutory sales price limit. The after-rehab value is not relevant to whether the unit is affordable to low income purchasers and the process of producing appraisals involves an unnecessary cost.

We also encourage HUD to remove the requirement that income verifications for homeowners be updated after six months if occupancy has not yet occurred. It would be unreasonable to force a refinancing of the property upon occupancy just because the homebuyer's income increased between commitment and occupancy.

Homeowner Rehabilitation—Definition of Income

The definition of income HUD has adopted for HOME to determine eligibility is the one used in the Section 8 program, which includes a valuation of assets, such

as home equity, as part of the family income. This income definition is inappropriate where HOME funds are used in home improvement programs, whose participants must own a home to apply, because it in effect lowers the eligible income for participants.

Site Development

We encourage HUD to more broadly define "site improvement," which the statute lists as an eligible HOME activity, to allow HOME funds to be used for off-site development activities such as streets and sidewalks where the jurisdiction deems such activities necessary. HUD's current requirement that such activities be restricted to privately owned "on-site" streets and sidewalks is unnecessarily limiting. HUD should not assume that such infrastructure will be available through other programs such as CDBG.

We also recommend that HUD allow jurisdictions to use HOME funds to acquire a site before all construction funds have been committed.

Preferences for Tenant-Based Assistance

The 1992 Housing Act allows jurisdictions to create written tenant selection policies for its tenant-based rental assistance programs, provided that the criteria are consistent with the purposes of providing housing to very low and low income families and are reasonably related to existing federal preference rules. It appears that at least one HUD regional office has interpreted this very narrowly and has prevented a state from directing tenant-based assistance to certain special needs populations. We encourage HUD to clarify in its final HOME rule that participating jurisdictions are to have maximum flexibility in developing their preference rules and may direct tenant assistance to special needs populations.

Definition of SRO Under HOME

We recommend that HUD conform the definition of Single Room Occupancy (SRO) projects to that used in the McKinney Homeless and Shelter Plus Care programs. Specifically, SRO units should not have to have separate plumbing to receive HOME funds. The restrictive definition HUD adopted makes it difficult to combine HOME funds with other programs.

Allow Deviation from HQS under Certain Circumstances

In some cases the requirement that units conform to the Section 8 Housing Quality Standards (HQS) is an impediment to correcting worst-case housing needs. While in general housing should meet minimum safety and soundness conditions, there are times when owners and tenants may need emergency work performed on their units. HUD should modify the Interim Rule to allow jurisdictions to use HOME funds for emergency repairs even though the assisted structure may not meet HQS. One option would be to exempt from HQS units receiving $5,000 or less in HOME funds for weatherization, emergency assistance, home repair, lead-based paint abatement or handicapped accessibility.

We also recommend that HUD allow units to deviate from HQS for water and sewers when community facilities are unavailable. This is particularly a problem in rural areas and other areas in which communities lack water and sewer systems and where housing units are often small. We also recommend that "homeowner preference" be accepted as part of the basis for determining overcrowded conditions. This would enable states to concentrate on upgrading the performance and safety of housing units rather than constructing costly additions to make units conform to unreasonable size standards.

States that have adopted a model national code containing structure and unit maintenance requirements should be able to use those standards in lieu of HQS for rehabilitation as they are permitted in law to do for new construction.

Also, HQS was designed for use in rental housing programs and is redundant for owner-occupied housing, which usually must comply with the strict standards of mortgage insurers such as FHA, VA, FmHA, and private insurers. We suggest that HQS requirements be waived for first-time homebuyer properties that meet the applicable FHA, VA, FmHA or other mortgage insurance requirements.

Finally, states should not have to inspect an ownership unit for HQS upon resale during the affordability period. This is an additional expense and restriction which goes far beyond administering the initial program. It is especially unnecessary when states use the new option to recapture the HOME subsidy upon resale rather than keep the unit affordable.

Reserve Funds

Prudent multifamily property owners and lenders require replacement or operating reserves on multifamily projects to ensure the proper maintenance of the prop-

erty when major systems need to be replaced. These reserves should be allowed to be funded for the duration of the project's operation as long as appropriate controls, approved by the participating jurisdiction, are in place to ensure the reserve's proper management. They should not be limited to 18 months.

Accrual of Match

HUD has said that it will not allow jurisdictions to start accruing their FY 1993 match dollars until all FY 1992 funds are committed. This unreasonably restricts jurisdictions from counting their own housing activities as match throughout the year. We recommend that states be allowed to begin accruing match as soon as the FY 1993 agreement with HUD is signed. (This should not be a problem in future years since HUD has said that states will be able to carry over match from year to year.)

It may not be possible to apply some forms of match, such as state or local tax waivers, until close to or after a project is completed. Yet match must be counted in the fiscal year when the funds are expended. We suggest that HUD allow states to credit this type of match in the fiscal year in which funds are expended, even if the match is not applied until the following fiscal year. For example, if the bulk of the HOME funds for a project are expended in FY 1993, but the tax waiver does not take effect until FY 1994, that waiver should be deemed to be applied during FY 1993.

General CMIS Issues

There are a number of issues we want to raise with regard to the CMIS. Numerous states have complained of problems with doing even the most basic project set-ups because HUD routinely loses the set-up forms the states are required to submit. As a result, states are told that projects have been canceled because the forms were not received within the required 20-day period, even though the forms were mailed to HUD the same day the projects were set up. HUD must make cleaning up these problems a top priority.

We realize that HUD has attempted to improve the difficulty of using tenant-based assistance on the CMIS by allowing up to 99 tenants to be entered as a single project. However, HUD is requiring that the term of the contract be the same for all tenants in a project. All tenants also must reside in the same county. Administering agencies generally do not arrange to have all tenants assisted at the same time, and in many cases one administrator will serve tenants in several counties. The state should be able to draw down monthly rent in lump sums by administering agency.

HUD is requiring that all a state's FY 1992 funds be committed on the CMIS before FY 1993 funds are accessible. However, a state's FY 1992 funds may be reserved to nonprofits or programs without being committed to specific projects in such a way that project setup reports can be submitted. A possible solution would be to create an additional code within the CMIS that would identify funds as obligated even though they are not set up as a project within the CMIS. States could then access their FY 1993 funds when all FY 1992 funds have been obligated, but before all projects are set up.

We also suggest that the use of HOME funds for acquisition only should not trigger a project completion report when the funds are used. Currently HOME funds cannot finance only the acquisition portion of an acquisition/rehabilitation project because it would not be possible to file the project completion report until the rehabilitation was completed, long after the 120-day deadline. Projects using HOME funds for acquisition or pre-development costs should be able to submit a project completion report later than the 120-day deadline without risking the shut-down of CMIS access.

The requirement that HOME funds in the local account of the HOME Investment Trust Fund be disbursed before funds in the Treasury account are accessed is also problematic. As little as $10 in the local account forces the jurisdiction to keep track of funds from two different sources for one project. At the least the CMIS should allow enough funds to be accumulated in the local account to fully fund a single project. Any interim interest earned on the account should be reinvested in HOME projects.

Increase the Time Between Fund Draw Down and Expenditure

Currently, states have 15 days from the date when they draw down HOME funds until they must expend them. We recommend increasing that time to at least 30 days.

CMIS/CHDO Operating Costs

When HUD implements the provision allowing states to provide operating costs for CHDOs, it should allow the CHDOs to either draw funds in advance on a monthly basis or to receive the full amount of operating funds in a lump sum. Otherwise, states will incur the additional administrative burden of processing frequent, perhaps weekly payments to CHDOs. Nonprofits with small budgets do not have the cash flow to front these costs for longer periods.

We also suggest that states be allowed to provide this operating support to CHDOs even if they are not actively implementing a HOME-assisted project. CHDOs may need assistance for capacity development at earlier stages such as developing a strategic plan, developing capacity to carry out a HOME-assisted project, or implementing a project not assisted with HOME funds.

Manufactured Housing

The criteria HUD has developed regarding permanent foundations for manufactured housing assisted under HOME will add substantially to the project cost with virtually no enhancement to the long-term placement of the home on the pad or to the HOME loan security. Very rarely is a manufactured home that is fit for occupancy moved from a park. Manufactured homes sited in parks are a form of permanent housing regardless of foundation type and should not be subject to the rules HUD has developed regarding permanent foundations.

Subsidy Layering

To avoid unnecessary duplication HUD should clarify that when HOME funds are used in conjunction with the Tax Credit, the Tax Credit subsidy layering review eliminates the need for a separate HOME subsidy layering review.

Interest Rate Subsidies

We recommend that the current regulation which limits interest rate buydowns to lump sum, up-front interest subsidies be changed to allow temporary interest rate buydowns disbursed over time. Under this alternate method, an interest rate subsidy of $42 dollars a month for five years (a total of $2,686.20) would require only $2,415.13 in HOME funds if invested at 5 percent and disbursed over time. This would not entail an arbitrage windfall to the state or project sponsor because the interest earned on the HOME funds would be directly invested in the HOME project, obtaining more mileage for the HOME dollars. This use of interest subsidy funds is eligible under the HOPE III program and should also be eligible under HOME.

Projects Jointly Funded by State and Local Jurisdictions

Although we appreciate HUD's effort to enable state and local jurisdictions to jointly fund a project, we believe the requirements established under Section 92.502 are unnecessarily restrictive. The Section requires that for a project to be jointly funded the state must designate the locality as a state recipient and allocate state funds to it. However, in some cases a locality might wish to contribute funds to a project that is primarily financed by the state. In that case, the locality should be able to allocate funds to the state's project instead of the reverse.

Deed Restrictions for Rental Housing

The statute requires that long-term affordability be ensured through a binding commitment but does not define that commitment as a deed restriction. States should have the flexibility to define "binding commitment" in the manner most appropriate under state law, which may entail some other mechanism than a deed restriction.

New Construction Standards

HUD should eliminate the regulatory requirement that HOME new construction projects conform to the public housing site and neighborhood standards in Section 882.708(c). These standards have proven to be unworkable in large cities with significant minority populations and are contrary to the basic notion of local control and discretion inherent in HOME. We suggest that new construction projects be subject to the same siting standards as other HOME projects.

Reconstruction Requirements

In the most recent interim rule, HUD amended the definition of reconstruction to include the rebuilding of housing that does not have a foundation or whose foundation is not usable. HUD should clarify that this amended definition allows reconstruction of a house elsewhere on the lot if conditions such as zoning, location of septic system, the terrain of the lot, or other factors make reconstruction off of the

original foundations the most practical solution. This could also reduce HOME costs by eliminating the need for temporary relocation expenses during demolition and construction.

Davis-Bacon Requirements

We recommend that the Davis-Bacon requirements only apply where the HOME funds directly cover the costs of construction. Under the CDBG program, for example, acquisition of land does not trigger Davis-Bacon. A similar rule should apply to HOME.

Eligible Activities

We recommend that eligible uses of HOME funds include social services linked to a project, such as living assistance provided to persons in housing for the elderly or disabled.

Eligible Costs

In the most recent HOME *Questions and Answers,* HUD states that in cases where the developer owns the project the developer's fee is not an eligible soft cost under HOME. We see no reason why the owner should not be compensated for taking on the role of developer, or why the owner should have to contract these services out. Also, does this apply only to existing owners who apply for rehabilitation money or also to owners who are both acquiring and rehabilitating a property? We believe HUD should give this issue more thought.

Thank you for the opportunity to offer suggestions for improving the operation of the HOME program. Please call us with any questions.

STATEMENT OF LAWRENCE A. SWANSON

DIRECTOR OF HOUSING DEVELOPMENT FOR ACTION-HOUSING, INC. OF PITTSBURGH, PA AND VICE-PRESIDENT OF ACTION-HOUSING'S NONPROFIT SUBSIDIARY AHI-DEVELOPMENT, INC.

Mr. Chairman and Members of the Committee: On behalf of ACTION-Housing I would like to express our appreciation for the opportunity that you have granted us today to comment on the HOME program. We at ACTION-Housing are well aware of the significant role this committee has played in shaping our national housing policy and in focusing housing resources on those Americans with the lowest incomes and with special needs for housing. *We believe that the HOME program represents a significant step forward in the effort to create a delivery system across this country which brings together diverse interests with the objective of creating very long term affordable housing.* Our comments today are in strong support of the HOME program as revised in 1992 and I believe in support of the work of this committee.

ACTION-HOUSING

ACTION-Housing, Inc. is a nonprofit housing corporation that has been involved in housing programs, policy planning, housing development and supportive housing services for the last thirty-six (36) years in the City of Pittsburgh and Allegheny County. ACTION-Housing operates a diverse set of housing programs, weatherization activities, self sufficiency activities, housing mortgage assistance programs and is directly involved in housing development and housing management. For the last seven (7) years ACTION-Housing has focused much of its development effort in pursuing developments which serve special needs housing populations including those projects which serve: low income and very frail elderly persons; persons with physical disabilities; bridge and transitional housing for formerly homeless persons, housing for single parent families engaged in active self-sufficiency efforts, housing for single parents in active alcohol and drug abuse recovery programs, person's with mental health disabilities and similar activities. In almost all of these developments ACTION-Housing has had a community based development organization, special needs housing service provider and/or advocacy group as its informal, formal or legal partner in the development process. A current project listing is attached to give the Committee examples of our efforts.

At this time we are now involved in 31 projects involving $38,323,000 in capital development costs since 1987. We now have 12 projects under planning, commitment or construction which will result in an additional $15,000,000 in development. Our management division currently provides management and supportive services to some 800 units in 24 separate projects. We will soon add another 300 units in

5 more developments. *Our management division was created to insure projects met their service goals and that long term affordability issues were considered.*

ACTION-Housing, Inc. has played a variety of roles in the last ten (10) years ranging from informal technical advisor to other organizations, to contracted technical support, to development partner and in the most extreme cases acting as owner, developer, general contractor and sales agent in combined rental and sales housing projects. ACTION-Housing has been involved in development activities in various levels since 1967. ACTION-Housing was a primary regional producer of housing as a nonprofit in the HUD 221(d)(3) BMIR and HUD 236 programs. ACTION-Housing developed some 2,000 units over a seven year period (1968–1978) all of which were sold, refinanced or converted to co-operative housing by 1979.

ACTION-Housing, Inc. played an important but strategically different role in the HUD Section 8 family housing program from 1977 to 1984. ACTION-Housing, Allegheny County and private consultants worked to develop some 17 small projects for Section 8 family housing the largest of which was 44 units and the smallest was 9 units. All of these non-traditional project were completed by developers with no or limited previous HUD experience and this effort was intended to bring small- and medium-sized private developers into the HUD production program.

Since 1982 ACTION-Housing has been a major producer of HUD 202 and subsequently 811 developments under the loan then capital advance program. To date we have developed or are developing some 8 projects involving 400 units in the 202 program and 5 projects with 79 units in the 811 program. These projects involve more than $22,000,000 in HUD loan funds and $1,500,000 in additional public, private and other capital grants that were raised to enable these projects to be completed.

As an active nonprofit developer ACTION-Housing and AHI-Development has been involved in local, regional and statewide programmatic and policy oriented discussions in, the HOME program. For this testimony we will focus on our involvements with the HOME program as implemented by the City of Pittsburgh and a separate activity implemented by the State of Pennsylvania on behalf of the balance of the state not covered by participating jurisdictions in the HOME program. We would like to turn first to our comments on the HOME program and then subsequently discuss the base of experience that led to these findings.

Based upon our experience as a nonprofit housing development organization with participating jurisdictions in the HOME program we have the following observations. We believe it is appropriate to:

1. *Retain the targeting for very low income residents in rental housing* including that 20 percent of units be set aside for those at 50 percent of median and that 100 percent of funds be limited to those at 80 percent of median and 90 percent of funds at 60 percent of median. Although those targets create project burdens it is clear that they can be met, that the increase in subsidy required is justified given the increased benefit to lower income households and that the relative capacity to utilize these funds is mostly a function of development capacity and access to alternative funds. Although relaxing the guidelines will in the short run result in a slight increase in rental housing production it will in the long run impair the development of capacity to produce rental housing for those in the greatest need. The current very favorable interest rate environments in the market today for both taxable and tax exempt financing clearly create a stronger opportunity to produce this housing then 18 months ago.

It has been our experience that the issue of credit availability is a more significant issue than the targeting requirements. We believe it is more appropriate to continue the efforts to foster Community Investment lending by private banks, support the continuance of tax-exempt bonds from finance authorities and to accelerate the administrative processes in the FHA multi-family loan program to enable rental housing to be produced. The difficulty in obtaining appropriate and timely FHA mortgage commitments is the barrier we would like to see the Congress address.

2. *Strongly support the expansion of staff and technical assistance capacity at State, Regional, Local level and within the private nonprofit sector.* Our experience has indicated that given the long period of low levels of housing funding there are now major gaps in the regional and local housing delivery system. Where there is strong public and private capacity the HOME program has moved quickly to fund the types of projects envisioned by Congress. But, where there is insufficient public and private capacity the program has floundered and the lack of direct project experience has made it almost impossible for responsible staff to interpret regulations and guidelines for applicants in a consistent manner so that fundings can move forward.

The national and local CHDO technical assistance programs should be expanded with a strong emphasis on funding and refunding these intermidiances with a record of success in mobilizing field activities. This activity should be evaluated and mon-

itored closely but we also should recognize that it will require three (3) to five (5) years before new organizations begin to demonstrate the development capacity that will ultimately increase production under HOME. In many ways this activity is the most important in the HOME activity and will along with consistent funding determine the ultimate effectiveness of this program.

There is also a collateral need to increase staff capacity in the public sector. The 1992 revisions made an important initial recognition of this by permitting administrative funding. This alone will not be sufficient to create an effective system. The increased training of HUD, State, Regional and local staff in housing development, housing financing, underwriting issues and in program operations is essential. Equally important is consolidating a program view that can focus on the substantive results. Since HOME projects frequently will require multiple sources the potential for conflicting and procedurally destructive regulation is present. *Our recommendation is that this committee consider mechanisms which give participating jurisdictions the required authority and responsibility to waive regulations and focus accountability on the products created.*

3. *We also believe that it is important to create and monitor a system that determines on a short term basis (within one (1) year) the effectiveness of the program.* The changing interest rate environments, the reality that HOME funding is part of a larger housing system with a changing resource mix and the overwhelming interest we all have in producing longer term affordable requires this type of effort. Evaluations conducted after long periods of program operations although important in the context of measuring effectiveness do not give us the type of information necessary to improve ongoing program performance. It is my understanding that two (2) national organizations, the National Low Income Housing Coalition and Enterprise Foundation have worked to develop such a data base. A process to use this information is critical to the success of the HOME effort.

HOME ACTIVITY AND EXPERIENCE

ACTION-Housing has been actively involved in the HOME programs of the City of Pittsburgh, Allegheny County and the State of Pennsylvania. This statement primarily relies on the City and State experience although our involvement in Allegheny County is also relevant. The City and State comparison is used because we believe it illustrates important issues of capacity, development experience and the decision process which are important to success under the HOME program.

The City of Pittsburgh allocation of HOME funds was $4.375 million in 1992 while the State of Pennsylvania received $23.8 million. The City of Pittsburgh and the State of Pennsylvania represent interesting contrasts between two (2) level of governments which have long been involved in supporting low income housing but in strategically very different ways. These differing contexts and our experiences with them led to our recommendations on the HOME program.

The City of Pittsburgh has had a consistently strong involvement in both single family rehabilitation and multi-family development over a twenty (20) year period. It has utilized the CDBG allocations, State Housing funds, private resources, agency earnings and City Capital funds to provide both a consistent product and build a system in which private developers, nonprofit organizations and community based organizations have been able to have significant success in housing production. The City through its Urban Redevelopment Authority has played an aggressive and proactive role in which it frequently initiates or strongly supports through pre-development funding and staff support development activities.

This aggressive and pro-active posture enable the City to commit and/or spend all of its HOME funds by March of 1993. By this date all funds were committed and $1.43 of the $4.375 million allocation was spent. The funds were allocated for a variety of activities as follows:

1. $2.61 million for rental housing development.
2. $450,000 for rehabilitation of substandard properties.
3. $1.18 million to assist very low income homeowners to improve properties under FHA eligible improvement guidelines.
4. $662,736 for CHDO rental developments.
5. $135,000 for administration as per 1992 Amendments to HOME.

The City of Pittsburgh (URA) housing director Stephen Leeper indicates that he currently has demand for an additional $7 to $10 million in projects under the current HOME guidelines. Clearly the City of Pittsburgh represents a clear example of a context in which a pro-active City with a strong housing production system in place can move rapidly to produce additional housing.

The State of Pennsylvania has long been engaged in housing in two (2) significant ways. It provides direct grants from its Housing and Redevelopment fund of up to

$20,000,000 per year to local governments and nonprofits to support loan and moderate income housing development. It also funds a variety of soft funding and technical assistance actual in a limited way.

A second major activity is represented by the single family and multi-family development of the Pennsylvania Housing Finance Agency. This entity is actively engaged in single family bond program; multi-family tax-exempt and taxable bond financing, operates the tax credits program and annually injects some $10,000,000 of Agency earnings as subsidy to produce low income housing. The PHFA also operates the most significant and comprehensive home mortgage (HEMAP) assistance program in the nation which since 1982 has provided up to 3 years of financial assistance to 2,000 homeowners per year.

Clearly the State of Pennsylvania has made a serious long term financial and organization commitment to assist the production and preservation of affordable housing. The HOME CHAS process was a extensive, open and community based. In contrast to the City of Pittsburgh the State has been primarily a gap financing vehicle in its Housing and Redevelopment program. It has been a primary provider of housing funding only in its PHFA activities.

The State plan requires that funds be directed first to jurisdictions which do not participate directly in the HUD—HOME funding process. These areas are typically undeserved by public and private agencies and also are not CDBG eligible entities. Therefore the ongoing organization capacity is less than entitlement communities. The general results have demonstrated the following:

> The State received $114,000,000 in applications from a combination of priority one and priority two jurisdictions. (Again priority two are those that participate directly with HUD under HOME.) When we consider only the priority one communities the State received some $27,463,000 in applications that were considered fundable. They were able to allocate all HOME funds to priority one communities and CHDO set aside organizations. The fundings are as follows:

HOME Program—Federal Fiscal Year 1992

Region	Demand	Recommended	Protects	Homeowners
1	$1,570,700	$1,220,700	4	71
2	$4,297,000	$3,484,445	16	343
3	$ 761,000	$ 732,000	2	68
4	$5,505,550	$4,056,730	10	312
5	$5,257,300	$4,560,000	12	529
6	$3,934,250	$4,012,250	18	482
Totals	**$27,463,000**	**$17,776,125**	**62**	**1,847**

As illustrated above the State has been able to commit all funds but has had to rely substantially on low income single family rehabilitation activities. It's plans and objective to spend funds for lower income rental housing were not realized because of (1) the overall development capacity; (2) staff interpretation issues on HOME guidelines and (3) the perception that rental development activities would not proceed quickly enough to satisfy HOME funding timing requirements. This occurred even though the State Agency utilized PHFA staff to assist in underwriting analysis.

The State experience illustrates the barriers to rental housing production absent developer and staff capacity. The State has invested its own resources in capacity development and this effort combined with HUD T.A. funding and a changing PHFA role in housing should provide sufficient capacity to develop rental housing. It is unlikely this will occur without increased emphasis on capacity building and recognition of longer commitment periods when capacity is more limited.

Summary

ACTION-Housing's experience with the HOME program suggests that it can and is playing a vital role in building a new housing delivery system. *Further changes from the 1992 HOME revisions should be made carefully within the context of an ongoing evaluation of actual program performance.* The ability to commit and spend HOME funds will vary with development capacity. Direct HUD field staff involvement in interpreting guidelines to facilitate substantive results envisioned in the legislation would accelerate the implementation of the HOME program. *The authority and responsibility to interpret guidelines at the Field level is essential to reducing*

the risk and uncertainly of less experienced participating jurisdictions. Without these administrative actions funds will meet lower income objectives only where development capacity is the strongest.

ATTACHMENT "A"

PUBLIC AND PRIVATE LEVERAGING

Public and Private Sector Dollars Leveraged for Projects Assisted by the ACTION-Housing Development Fund

When reviewing this schedule, the following points should be noted:

- The figures shown for "operating funds" generally refer to 20 year contracts with HUD for operating subsidies which have been secured to cover project expenses and, in some cases, supportive service programming. In a few cases the operating funds cover shorter periods of time and/or are used for more limited purposes.
- The projects showing no figures for operating support are either homeownership developments or cases in which ACTION-Housing did not play a significant role in securing operating funds. In these instances the necessary operating support has been obtained directly by the sponsoring organizations.

I. COMPLETED PROJECTS

Name	No. of Units	Capital Funds Secured	Operating Funds Secured	Total
1. Allegheny Independence for persons with severe physical disabilities	25	$ 1,300,000	$ 3,500,000	$ 4,800,000
2. Bennett Place Apartments for low-income elderly and disabled persons	52	2,600,000	6,000,000	8,600,000
3. Century Townhomes, Phase I for low and moderate income families	100	3,500,000	1,000,000	4,500,000
4. Debra House for Homeless women and children	15	300,000	600,000	900,000
5. Dorothy Day Apartments for low-income single parent families	17	1,450,000	1,000,000	2,450,000
6. Laurentian Hall for frail elderly persons	36	1,900,000	1,100,000	3,000,000
7. McKeesport Apartments for low-income elderly and disabled persons	38	2,000,000	4,512,000	6,512,000

8. McKeesport Homeownership Demonstration Program for low and moderate income families	5	150,000	--	150,000
9. Orr Compassionate Care Center	14	$ 280,000	$ 600,000	$ 880,000
10. Scattered Site Development for persons with mental illness	20	400,000	--	400,000
11. Scattered Site Development for persons with physical and mental disabilities	24	1,500,000	2,700,000	4,200,000
12. Sojourner House for single parents with substance abuse problems and their children	18	785,000	--	785,000
13. Sweetbriar Apartments for low-income elderly and disabled persons	56	2,400,000	7,600,000	10,000,000
14. Womanspace East for homeless women and children	16	750,000	--	750,000
15. Womansplace for victims of domestic violence	25	500,000	--	500,000
II. PROJECTS UNDER CONSTRUCTION				
1. Century Tonwhomes, Phase II for moderate income families	80	2,800,000	--	2,800,000
2. Homewood Park Estates for moderate income families	14	910,000	--	910,000
III. PROJECTS APPROVED FOR FULL FUNDING				
1. Bessemer Apartments for elderly and disabled persons	40	2,299,400	2,458,000	4,757,400
2. Dormont Apartments for elderly and disabled persons	43	2,399,200	2,542,000	4,941,200

3. Greenfield Apartments for elderly and disabled persons	40	2,299,400	2,458,000	4,757,400
4. Hill District Apartments for mentally disabled persons	15	840,000	920,000	1,762,000
5. Locust Street Transitional Housing for single parents with substance abuse problems	4	200,000	--	200,000
6. Pittsburgh Homeownership Program for low and moderate income families	100	2,400,000	--	2,400,000
7. Ursuline Apartments for physically disabled persons	20	1,316,100	1,182,000	2,498,100
8. White Street Apartments for mentally disabled persons	15	846,800	922,000	1,768,800
IV. PROJECTS APPROVED FOR PARTIAL FUNDING				
1. Benedictine Place for homeless women and children	16	1,000,000	--	1,000,000
2. Charles Street Apartments for moderate income families	12	9,600	--	9,600
3. Chaske Apartments for moderate income families	20	200,000	--	200,000
4. Debra House, Phase II for single parent families	20	200,000	--	200,000
5. Nehemiah Homeownership Program for low and moderate income families	50	750,000	--	750,000
6. Wesley Plaza	48	38,400	--	38,400
Totals	998	$38,323,900	$39,094,000	$77,717,900

ATTACHMENT "B"

STATUS ON HOUSING DEVELOPMENT ACTIVITIES
STATUS REPORT ON HOUSING DEVELOPMENT ACTIVITIES
SUPPORTED BY THE ACTION-HOUSING DEVELOPMENT FUND

APRIL 1, 1993

A. COMPLETED PROJECTS

A–1. *Allegheny Independence House for Persons with Severe Physical Disabilities, Borough of Wilmerding*

ACTION-Housing joined with the Harmarville Rehabilitation Center and Three Rivers Center for Independent Living in 1986 to develop this state of the art facility for persons with severe physical disabilities. The building contains 25 apartments and was developed at a cost of $1.3 million. It includes a wide range of services for the residents which enable them to pursue more independent lives.

A–2. *Bennett Place Apartments for Low-Income Elderly and Disabled People, Homewood-Brushton*

Developed jointly by ACTION-Housing, Operation Better Block and the Retirement Housing Foundation of Los Angeles, this 52 unit, $2.6 million facility serves low-income elderly and physically disabled people.

A–3. *Century Townhomes, Phase I for Low and Moderate Income Families. City of Clairton*

This project involved substantial rehabilitation of 100 townhomes in the 450 unit Century Townhome development in Clairton. The renovated units are being rented to low and moderate income families under the HUD Section 8 rental assistance program. A new water system has also been installed throughout the development and all of the roads have been reconstructed.

A–1. *Debra House for Homeless Women and Children, Braddock Borough*

Debra House is a joint project of ACTION-Housing and Bridged to Independence, Inc., a local non-profit agency based in Braddock. This project involved the conversion of a vacant convent building into a bridge housing facility for homeless women and children. The facility includes supportive service programs aimed at helping the residents to achieve economic self-sufficiency. Debra House can accommodate 12 single parent families with young children.

A–5. *Dorothy Day Apartments for Low-Income Single Parent Families, Lincoln Area of Pittsburgh*

This $1.45 million project involved the conversion of the vacant Corpus Christi school building into 17 permanent apartments for single mothers and their young children. The facility also contains a daycare center serving 26 children which is operated by the Ursuline Center.

A–6. *Laurentian Hall for Frail Elderly Persons, Garfield*

This 36 unit, $1.9 million apartment building for frail elderly persons received a national recognition award from HUD. It was jointly developed by ACTION-Housing, the Bloomfield-Garfield Corporation, St. Lawrence O'Toole Parish and St. Margaret Hospital. The project involved the conversion of a vacant school building owned by St. Lawrence O'Toole Church. Residents are provided with a variety of supportive services, hot meals served each day by St. Margaret Hospital, and direct access to a health care center operated by the hospital on the first floor of the building.

A–7. *McKeesport Apartments for Low-Income Elderly and Disabled People, City of McKeesport*

This $2 million project provides 38 apartment units for low-income elderly and physically disabled persons. It was developed on two different sites. On the first site, the vacant Versailles Elementary School was converted into 25 apartments. On the second site, the vacant Archer Elementary School was demolished and 13 new garden apartments were constructed.

A–8. *McKeesport Homeownership Demonstration Program for Low and Moderate Income Families, City of McKeesport*

This demonstration program produced five new single family homes in McKeesport for sale to low and moderate income families. It also led to creation of the Nehemiah Homeownership program described under item "D–5" of this report. The Nehemiah program will produce 50 homes in McKeesport for sale to low and moderate income families.

ACTION-Housing's partners in these initiatives are the McKeesport Redevelopment Authority and the McKeesport Development Corporation.

A–9. *The Orr Compassionate Care Center for Homeless and Low-Income Elderly People, East Liberty*

This facility provides short-term respite care to homeless individuals and low-income elderly persons released from area hospitals after serious illnesses. It is located directly above the East Liberty Family Health Center.

A–10. *Personal Care Facility for Frail Elderly People, Riverview Center for Jewish Seniors, Squirrel Hill*

ACTION-Housing helped the Riverview Center for Jewish Seniors to evaluate several potential sites for the development of a personal care facility. Based on these evaluations, Riverview decided to establish a personal care section within their existing skilled nursing facility. This area currently serves 15 elderly persons.

A–11. *Scattered Site Development for Persons with Mental Disabilities*

ACTION-Housing worked with the Allegheny County MH/MR program and Residential Resources, Inc. on this project. It involved the renovation of 20 units of existing housing for mentally ill persons scattered throughout Pittsburgh and Allegheny County. Locally based mental health agencies are providing the necessary supportive services to the residents of this housing.

A–12. *Scattered Site Development for Persons with Physical and Mental Disabilities*

This $1.5 million project contains 24 units of housing built on four separate sites for persons with physical and mental disabilities. The sites are located in the East End of Pittsburgh, and the Boroughs of Wilkinsburg and Swissvale. Essential supportive services are being provided to the residents by ACTION-Housing's partners in this project, i.e., Three Rivers Center for Independent Living, Goodwill Industries, Residential Resources and the Allegheny East MH/MR Center.

A–13. *Sojourner House for Single Parents with Substance Abuse Problems and their Children, Bloomfield*

This is a transitional housing facility for single mothers with drug and alcohol problems and their young children. It was developed by East End Cooperative Ministry with assistance from ACTION-Housing. The facility accommodates up to 18 mothers and 30 children.

A–14. *Sweetbriar Apartments for Low-Income Elderly and Disabled People, Mt. Washington*

This is a 56 unit apartment building for low-income elderly persons. ACTION-Housing served as the project sponsor. The facility is owned by a consortium of 13 civic, religious, and neighborhood groups on Mt. Washington. Total development costs were $2.4 million.

A–15. *Womanspace East for Homeless Women and Children, Hill District*

This $750,000 project provides both bridge housing and emergency shelter for homeless women and children. It contains five two bedroom apartments, one single bedroom apartment, ten single room occupancy units, a multi-purpose room, dining area, commercial kitchen and daycare center. The facility offers its residents a variety of supportive services to help them achieve higher levels of self-sufficiency.

A–16. *Womansplace for Victims of Domestic Violence, City of McKeesport*

This is an emergency shelter facility for women and children from the economically depressed Mon Valley area of Allegheny County who are victims of domestic violence. It accommodates up to 25 women and children. ACTION-Housing provided technical assistance to the nonprofit developer of this facility, Womansplace of McKeesport.

B. PROJECTS UNDER CONSTRUCTION

B–1. *Century Townhomes, Phase II for Low and Moderate Income Families, City of Clairton*

Phase II of Century Townhomes involves the substantial rehabilitation of 100 units of housing for sale to low and moderate income families. Thus far 80 units have been rehabilitated and occupied. The project is expected to take one more year to complete.

B–2. *Homewood-Brushton Homeownership Program for Low and Moderate Income Families, Homewood-Brushton*

ACTION-Housing has provided both technical and financial assistance to the nonprofit developer of this project, Operation Better Block. The project is designed to provide home ownership opportunities to low and moderate income families in

Homewood-Brushton. Thus far, ten single family, detached homes and four of eight townhomes planned for the site have been built and occupied.

C. PROJECTS WITH FULL FUNDING COMMITMENTS/EXPECTED TO BE UNDER CONSTRUCTION DURING 1993

C–1. *Bessemer Apartments for Low-Income Elderly and Disabled People, East Pittsburgh*

This is a proposed $2.3 million, 40 unit apartment building to be developed for low-income elderly and disabled people through conversion of the vacant St. Williams school building in East Pittsburgh. HUD approved capital funding and operating support for the project in September, 1992.

C–2. *Dormont Apartments for Low Income Elderly and Disabled People, Borough of Dormont*

This proposed $2.4 million 43 unit development for low-income elderly and physically disabled persons received preliminary approval from HUD in May, 1992. ACTION-Housing is now preparing final plans for the facility.

C–3. *Greenfield Apartments for Low-Income Elderly and Disabled People. Greenfield*

This proposed $2.3 million, 40 unit development for low-income elderly and disabled persons is to be developed in the Greenfield area of Pittsburgh. HUD approved capital funding and operating support for the project in September, 1992.

C–4. *Hill District Apartments for Persons with Mental Disabilities, Hill District*

This proposed 15 unit $800,000 facility for persons with mental disabilities has received approval from HUD for capital funding and long-term operating support. It will be a joint project of ACTION-Housing, Mercy Hospital and the Vocational Rehabilitation Center. Construction is expected to begin in early 1993.

C–5. *Locust Street Transitional Housing for Single Parents with Substance Abuse Problems, City of McKeesport*

This project will involve extensive renovation of an existing four unit apartment building for use as transitional housing by single parent families with substance abuse problems and their children. A collaborative of 30 human service agencies will provide the residents with a broad base of essential supportive services designed to help the residents achieve higher levels of self-sufficiency over an 18 month period. ACTION-Housing has secured a $200,000 grant from a local foundation to complete the necessary renovation work. The McKeesport Housing Authority will provide the project with HUD Section 8 rental assistance. Construction is expected to begin in mid-1993.

C–6. *Pittsburgh Homeownership Program for Low and Moderate Income Families, City-wide*

This is a major initiative which is to involve the acquisition and rehabilitation of 100 units of vacant housing units throughout Pittsburgh and the sale of these units at an affordable price to low and moderate income families. This project will be jointly operated by ACTION-Housing and the Urban Redevelopment Authority of Pittsburgh. HUD approved a $2.4 million grant for the project in September, 1992.

C–7. *Ursuline Apartments for Persons with Physical Disabilities, Bloomfield*

This $1.3 million facility will be similar to Allegheny Independence House. It will provide 20 accessible apartment units for persons with physical disabilities. The project will be developed in the East End of Pittsburgh. Partners in this initiative include Ursuline Center, Three Rivers Center for Independent Living, Goodwill Industries and ACTION-Housing. HUD approved capital funding and operating support for the project in April, 1992.

C–8. *White Street Apartments for Persons with Mental Disabilities, City of McKeesport*

This 16 unit $846,000 development for persons with mental disabilities is to be jointly developed by ACTION-Housing and the Mon Yough MH/MR center. HUD approved capital funding and operating support for the project in September, 1992.

D. PROJECTS WITH PARTIAL FUNDING COMMITMENTS

D–1. *Benedictine Place for Homeless Women and Children, Ross Township*

Seventeen two and three bedroom apartments are to be created on the third and fourth floors of the vacant St. Benedict's School Building to serve as bridge housing for homeless women and children in the North Hills area of Allegheny County.

D–2. *Charles Street Apartments for Low and Moderate Income Families, Borough of Turtle Creek*

Plans are being developed to renovate this 12 unit development and convert it to a resident-owned housing cooperative. HUD has approved a $9,600 planning grant for this project.

D–3. *Chaske Apartments for Low and Moderate Income Families, Penn Hills*
This is an existing property consisting of 20 duplex units. The units are to be rehabilitated and sold at an affordable rate to low and moderate income families.

D–4. *Debra House, Phase II for Low-Income Single Parent Families, Braddock Borough*
This $1 million project will involve the conversion of a vacant school building directly adjacent to Debra House into 20 permanent apartment units for the graduates of the Debra House Self-Sufficiency program. Preliminary funding commitments have been received from the PA Housing Finance Agency and Allegheny County.

D–5. *Nehemiah Homeownership Program for Low and Moderate Income Families, City of McKeesport*
ACTION-Housing has received a $750,000 grant from the U.S. Department of Housing and Urban Development to subsidize the construction of 25 new townhomes and the rehabilitation of 25 existing vacant homes in McKeesport for sale to low and moderate income families. ACTION-Housing's partner in this initiative will be the McKeesport Development Corporation, a locally based nonprofit entity.

D–6. *Wesley Plaza for Low and Moderate Income Families, Borough of Wilkinsburg*
This 48 unit development will be renovated and converted into resident-owned cooperative housing.

E. PROJECTS IN PLANNING

E–1. *Bailie Street Apartments for Low and Moderate Income Families, City of McKeesport*
ACTION-Housing is working with the McKeesport Development Corporation and the McKeesport Housing Authority on the proposed renovation of this severely deteriorated four unit apartment building. The completed project will provide decent and safe housing for low and moderate income families in the McKeesport area. Section 8 rental assistance is to be provided by the McKeesport Housing Authority.

E–2. *Duquesne Home Investment Partnership Program for Low and Moderate Income Families, City of Duquesne*
This program will involve the acquisition and rehabilitation of vacant, abandoned homes in the City of Duquesne and the sale of these improved homes to low and moderate income families. Initially three houses will be renovated to test the feasibility of the approach and to lay the foundation for an expanded effort. The program will be jointly operated by ACTION-Housing, the City of Duquesne and the Duquesne Business Advisory Committee.

E–3. *Homewood-Brushton Homeownership Program Phase II, for Low and Moderate Income Families, Homewood-Brushton*
This project will involve the development of 18 new single family homes for sale to low and moderate income families in Homewood-Brushton.

E–4. *Huey Street Apartments for Low-Income Single Parent Families, City of McKeesport*
This existing deteriorated apartment building with 20 two and three bedroom apartment units will be substantially rehabilitated and serve as transitional housing for low income single parent families with a history of homelessness or substance abuse. Appropriate supportive services will be provided to the residents by local social service agencies. The McKeesport Housing Authority will provide Section 8 rental subsidies for the project.

E–5. *Manchester Apartments for Low and Moderate Income Families, Manchester*
This is an existing 90 unit scattered site development in the Manchester area of Pittsburgh which is to be rehabilitated and rented to low and moderate income families.

E–6. *Ursuline Transitional Housing for Low-Income Single Parent Families, Bloomfield*
This facility will serve low-income single mothers and their young children. It will provide them with decent, affordable housing and supportive services designed to help the mothers achieve self-sufficiency. It will involve conversion of an existing building owned by the project sponsor, the Ursuline Center.

E–7. *Willow Tree Apartments for Low and Moderate Income Families, Ross Township*

This proposed $7 million project will involve the acquisition and renovation of 234 apartment units in Ross Township for use by low and moderate income families. It will also be closely linked to the Benedictine Place project described above in item D–1.

STATEMENT OF BARRY ZIGAS

PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Mr. Chairman, members of the Subcommittee, my name is Barry Zigas. I appear today as President of the National Low Income Housing Coalition. The Coalition is a nonpartisan, nonprofit information and advocacy membership organization headquartered in Washington, DC. Our members include low income residents, community-based nonprofit organizations, public agencies and other housing providers. The Coalition is governed by an elected Board of Directors from across the country, which meets twice a year to review and set policies for the group. The Coalition is affiliated with the Low Income Housing Information Service, a nonprofit public education, policy research and development group, which generated some of the information I will share with you today.

I appreciate this opportunity to share our views on the HOME program. On behalf of our board and members, I want to thank all the members of this committee for the strong support you have shown for low income housing programs, and in crafting the innovative initiatives of the National Affordable Housing Act of 1990. HOME is only one of these. But it has always been seen as the centerpiece of that landmark legislation. As you know, our organization was deeply involved in the development of the 1990 Act, and I participated on the National Housing Task Force during 1987–88 that first recommended the HOME program.

Since its inception, the HOME program has been through two separate legislative make-overs, several waves of regulation, and uncertainty over its funding levels. Moreover, because significant aspects of the program changed during the 1992 legislative review, many participating jurisdictions (PJs) hesitated to launch their own programs. These changes included the requirement for matching funds, which was waived in the FY92 appropriation, and bringing HOME and the low income housing tax credit programs into better conformance.

This hesitation and the changes in program design have combined to slow the program's actual implementation. These delays are disappointing, but they are understandable in light of the ways in which the program has been changed since its original conception. By comparison, regulations for the Section 8 new construction program were not even published in final form until 2 years after the 1974 housing legislation was enacted. The first actual projects were not occupied until several years after that. The delays in spending at the national level are vexing, but they do not necessarily imply a need to radically overhaul the program.

The National Low Income Housing Coalition and its affiliated organization the Low Income Housing Information Service have been working with a network of statewide housing coalitions to monitor HOME and CHAS efforts. We have surveyed a sample of states and local PJS to assess whether the HOME program is being unduly delayed, or whether specific requirements are crippling program implementation. On the whole, these surveys have shown that many PJs have had little or no problem carrying out HOME programs, and have allocated either all of their FY92 funds, or most of them. The most common concern raised by observers and advocates has been the lack of PJ capacity, and hesitation by PJS to act given the fluid nature of the program's rules. There are specific concerns which I will address in detail. But *the overwhelming response from these correspondents who deal with the PJs and with CHDOs on a daily basis has been that the program can be successfully administered with its present requirements.*

The HOME program was designed to give state and local governments flexibility in meeting housing needs through programs they would design themselves, within an overall context of national priorities to direct the use of federal funds. Concerns that have been raised about the HOME program tend to address both these areas: flexibility in administration, and the suitability of national priorities. Congress should distinguish between these two areas. Changes that will reduce second-guessing by HUD, that will provide maximum flexibility for local administrators in the actual design and implementation of programs and that will reduce the need for specific programmatic approvals and waivers by HUD should be encouraged. On the other hand, however, the National Low Income Housing Coalition believes very strongly that HOME funds should be directed to help those with the greatest hous-

ing needs. We believe that Congress should limit the program to helping very low income households, and should maintain requirements for maximum rent levels for low income households that are appropriate with the use of federal money. It should not hesitate to emphasize the need for long-term affordability requirements, even if you believe that mandating their precise form is unwieldy or inappropriate.

The new Administration at HUD has promised to institute a more flexible regulatory approach to its programs. It has coupled this commitment to a restatement of its support for national housing programs and efforts to assist very low income people. We hope that Secretary Cisneros and his team will be able to ease substantive program burdens for PJs and low income consumers through regulatory action. Meanwhile, we urge the Congress to refrain from premature overhaul of the basic statutory premises of the HOME program.

Targeting at HOME Funds

The low income housing crisis is most severe for households with the lowest incomes. Repeated analyses of the American Housing Survey by HUD, LIHIS and the Center on Budget and Policy Priorities show that "worst case" housing needs are most common among very low income renters with incomes below 50 percent, and most concentrated among those with incomes below 30 percent of area median, or close to the poverty level. Families with children and disabled people are most likely to be suffering from more than one specific "worst case" housing need. Nearly three-quarters of all those with such needs suffer only from a housing cost burden in excess of half their income. As income rises above 50 percent of area median, the incidence of worst case needs drops significantly. Among those with incomes above 60 percent of the median, these problems become scarce. While some families with incomes of 80 percent or more of area median may be experiencing housing problems, repeated statistical analysis of Census data shows that they are neither as common nor severe as those facing people with substantially lower incomes.

One reason for this is that area median incomes are high, and do not adequately reflect renter incomes, where the needs are concentrated. Renter household income, of course, has not risen as fast or as high. But the HUD income qualification rules are measured in terms of overall family income, when two-thirds of the households are owner-occupants. Unadjusted for family size, the Census Bureau's Current Population Survey in 1991 showed that renter incomes were $10,000, or nearly one-third, lower than owner incomes. Unpublished data from the 1991 American Housing Survey shows unadjusted renter household income is 28 percent lower than for all households.

The following table shows median incomes for a selected group of cities around the country. HUD estimates the median income for a family of four in 1993 is $39,700. Households with incomes at or below 50 percent of this median ($19,850) thus have substantially higher incomes than the poverty level, for instance, which is $14,350 for a family of four. Renters in the lowest quartile have unadjusted household incomes of $9,576 or less. Median income measurements are more sensitive to local variations than the national poverty level. But they mask the true levels of income that can be served under the rubric of "very low income." The vast majority of households with incomes at 50 percent of area median are working people, as are most with incomes between 30 percent and 50 percent.

Incomes for Selected Metropolitan Areas

Metro Area	Median income, family of 4	35% of AMI. adjusted for family of 3
Oakland	$46,000	$14,490
Hartford	$50,200	$15,813
Tampa	$33,800	$10,647
Chicago	$48,400	$15,246
New York City	$41,100	$12,947
Memphis	$34,200	$10,773
Austin	$42,600	$13,419

Concerns have been raised about the targeting requirements in the HOME program. Some PJs and others have suggested that the levels are too low, and should be relaxed to permit HOME funds to serve any household with an income of 80 percent or less of area median. We strongly oppose this suggestion. Nationally, this would permit 100 percent of HOME funds to be used to serve four-person households with incomes as high as $31,000 per year. We don't believe this is appropriate given the desperate housing needs of renters with substantially lower incomes.

In our surveys of statewide housing coalitions, CHDOs and some PJs, we did not come across a single example where the HOME targeting requirements were cited as an impediment to program implementation. Some reported confusion over how to apply the program-wide targeting requirement versus the project-specific targeting requirements and urged a simplification. Others with more experience at operating housing assistance programs indicated that these rules are not a problem for them. None suggested that the requirement to devote rental assistance funds primarily to those with incomes below 60 percent of area median was either inappropriate or problematic. In fact, CHAS needs analyses in many jurisdictions have identified households width lower incomes as having the greatest needs and the PJs themselves have committed to using their HOME funds to meet those needs.

The current statutory provisions were designed to give PJs maximum flexibility in designing specific projects while maintaining an emphasis on the use of HOME *funds* to benefit very low income renters. If Congress is persuaded that the HOME targeting rules need to be simplified, it should move in the direction of requiring most homes assisted under the program to provide decent and affordable housing to households with incomes below 60 percent of area median. This is at least consistent with the low income housing tax credit. Ideally, the HOME rental targeting should be lower. Homeownership efforts should have a higher threshold than rental housing, but not more than 80 percent of median.

Concerns have also been raised about the rent levels that are required in the program. Some commenters have suggested that the only requirement for pricing in HOME funded rental units be that they do not exceed Fair Market Rents. We believe that the current requirement is appropriate. The original intent of the HOME program was to help create and preserve homes that were decent and affordable to very low income households.

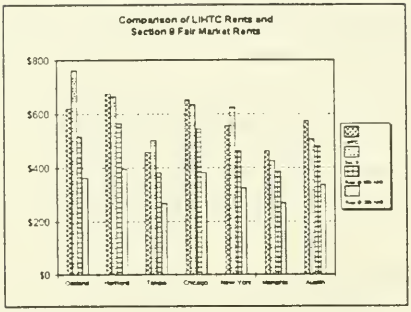


Figure 1

Figure 1 compares maximum eligible tax credit rents, Fair Market Rents and 30 percent of 50 percent and 35 percent of AMI in selected metropolitan areas. These comparisons illustrate the need for Congress to target HOME funds to efforts that will create homes that are affordable to those with greatest needs. This requires rents significantly lower than the maximums permitted in tax credit properties. Such lower rents can be achieved. Some tax credit sponsors are doing so regularly already in order to be competitive in their specific markets or because of a commitment to reaching a lower income group of consumers. HOME funds should be used to assist in this effort, and the statute should emphasize HOME's use to create and preserve affordable housing opportunities for very low income renters. The low income housing tax credit requires that rents be no greater than 30 percent of 60 percent of median. We believe the same test is the bare minimum for a direct subsidy program like HOME. Similarly, we support the project-based targeting requirement in rental housing for 20 percent of the units to serve those with incomes below 50 percent of area median. These households are hard to serve, and we fear that PJs would avoid doing so without a minimum requirement.

Actual program operators must contend not only with nationally-mandated maximum rent levels, but also with the reality of the housing markets in which the HOME money will be spent. If HOME funds are used in low income communities, rents are likely to be significantly lower than the metropolitan FMRs. Projects with higher rents are unlikely to attract renters, unless they are further subsidized through Section 8 or some other means. In the real world of low income housing development, subsidies must often be increased to enable homes to be competitive in their specific markets. Several respondents to our survey reported that they were planning rental projects with all of the units meeting these requirements because that is the only way they could market the units in the neighborhoods where work is going on.

Matching Funds

The 1990 statute included a match requirement for a number of cogent reasons. One was to substitute for a more stringent "maintenance of effort" requirement that is otherwise commonplace when the federal government "block grants" formerly categorical funds to states and local governments. Such a requirement is designed to prevent federal funds from merely substituting for state or local resources formerly devoted to the same purposes. A second purpose was to emphasize the partnership between the federal, state and local governments and grantees by requiring local funds to be put into projects. We support both purposes.

HOME funds were carved out of other programs that are highly targeted to serve very low income renters' needs, such as Section 8 rental assistance, Section 202/Section 811 grants for housing for the disabled and elderly, and public housing development. PJs were given the opportunity to administer their own housing programs with federal money. HOME targeting is significantly less than in the other rental assistance programs. If Congress is considering reducing the match requirement even further, it should do so only for funds that serve households with incomes below 50 percent of area median, or even less. Where PJs choose to use these funds

to benefit those with higher incomes, it is appropriate to continue to require a commitment of local funds.

We would support changes to the match so that local or state predevelopment funds to CHDOs would count, even if the CHDO does not continue to develop a HOME-funded project. CHDOs could choose to do tax credit deals, or use other state or local funds other than HOME to complete a project. PJ funds spent on predevelopment should count as match as long as they are invested in efforts to carry out HOME-eligible purposes.

The 1992 legislation significantly changed the match requirement and simplified the waiver process. We supported these changes, and would support a further change to standardize the match at 25 percent regardless of the activities undertaken by the PJ. The differential match complicates HOME administration needlessly.

We oppose recommendations to include the total face value of any publicly-issued debt (such as tax-exempt mortgage revenue bonds) in the definition of match. Such funding is more appropriately labeled "leveraging." It represents not a permanent contribution to the project but a loan that will be paid back with interest, sometimes using the HOME funds to do so. Permitting publicly-issued debt to count in the match could also bias how state and local governments structure deals by requiring the use of such debt to take advantage of its match potential. This may or may not suit private or nonprofit sponsors. It could discriminate against loans obtained through CRA agreements or private lenders' community reinvestment programs. The provisions in the 1992 legislation to allow part of such debt to be included as a match contribution is as far as Congress should go in this area.

One area in which action should be taken is to recognize the value of deferred loans as match contributions to HOME-financed projects. Such a provision was included in the 1992 legislation, but dropped at the Administration's insistence. Local or state governments have sound reasons for using deferred loans rather than grants to help finance HOME projects. When the PJ's intention is clearly to leave the funds in the project it should be counted as match.

The match discussion is not theoretical. In 1992 states took actions based on their perception of Congress' intentions on the match. Texas, for instance, appropriated $18 million over two years from its general fund for low income housing in the state. This is the first time ever that Texas has appropriated such funds. A major reason for adopting the appropriation was the need for a HOME match. Advocates believe that unless the match requirement is restored, Texas will pull back from this historic commitment. Minnesota considered legislation in both houses to establish a housing assistance account within the state housing finance agency to match HOME dollars by providing grants to participating HOME jurisdictions. In Vermont, a legislative committee reduced its FY93 appropriation for the state's housing and land conservation fund by $6 million based on the match waiver in the FY92 federal appropriation.

CHDO Definitions

The 1990 statute established a minimum 15 percent set-aside for so-called "community housing development organizations" (CHDOs). This requirement is the direct result of the Community Housing Partnership Act originated by Rep. Joseph P. Kennedy III and this Subcommittee. The National Low Income Housing Coalition helped design that bill and strongly supports the continuation of this set-aside.

HUD's regulations define CHDO's using a number of characteristics. One that has drawn many comments is the requirement that at least one-third of the board be 1) low income residents of the community, 2) a resident of the low income neighborhood served by the CHDO, or 3) an elected representative of a low income organization in the community. We agree with other nonprofit groups that any further broadening of this definition will seriously weaken the original intent of this provision.

The Community Housing Partnership legislation was first proposed by the National Low Income Housing Coalition in June, 1984. It was designed to encourage the development and growth of groups that would be directly accountable to their communities; that would involve low income residents and beneficiaries directly in decisions affecting their homes and communities; and would help empower low income people to speak and act for themselves. The statute's CHDO definition retains most of the spirit of this original intent, and we believe HUD's regulations sustain it passably well.

Some nonprofits and many HOME grantees have argued that this definition should be relaxed so that more nonprofits can qualify to participate in the set-aside. We strongly oppose such changes. Where CHDOs like those defined in the statute and regs do not exist, we urge grantees to use their funds to help start them. Where

nonprofit structures do not conform to the model preferred by the legislation, we urge them to consider changing their structures or to compete for the remaining 85 percent of all HOME funds that are not restricted to CHDOs.

In our surveys, we did not find any PJs that had been unable to identify CHDO's at all. Some expressed concerns about their capacity; we continue to support the use of CHDO set-aside funds for capacity building activities for eligible CHDOs. Most reported that they have been able to allocate their set-asides, and some have easily allocated substantially more of their HOME funds to such nonprofits.

Other Recommendations

Our survey identified several other suggestions for HOME program changes that should be considered.

- A number of respondents suggested that income certifications for HOME residents be biannual, rather than annual, to ease reporting and administrative burdens on PJs, CHDOs and other program participants.
- The requirement for environmental reviews by states for all HOME activities, including housing rehabilitation, was cited by many as unnecessary and burdensome. It was suggested that housing rehabilitation be specifically exempted from full NEPA review requirements, permitting states or other PJs to use only the statutory checklist.
- Some groups expressed concern about the two-year limitation on rental assistance, preferring the five-year term of Section 8. Overall, many in our survey questioned HOME's efficacy as a rental assistance tool, despite a strong emphasis on such use by HUD staff, because of the uncertain nature of the HOME funding, and concerns that residents could be stranded without assistance if HOME funds are cut or eliminated. One respondent suggested that HUD's cash management system be changed to permit PJs to draw down several months' worth of funds at a time to finance tenant-based assistance.
- In a related area, one respondent strongly urged that the HOME program be amended to permit the establishment of long-term interest bearing investment accounts for projects so the income could be used for operating subsidies and/or rental assistance to increase affordability to very low income residents.
- A number of respondents carrying out lower income homeownership programs urged that HOME permit owners to recoup their initial downpayment investments before any repayments are made to the HOME account on sale, even if this would cause a net loss to the HOME account. These respondents are concerned that if markets decline, owners will lose the incentive to remain with their homes if their potential sale price sinks below the level of outstanding debt and HOME assistance.
- The 1992 statutory changes caused many PJs to delay implementation of their programs. As a result, more than a year passed for some before they actually began operating their programs. With the requirement that funds be spent within 24 months or lost, these jurisdictions are facing a possibly unrealistic deadline caused by congressional changes in the program. They suggested that the performance period for FY92 funds be extended to 36 months to accommodate this initial delay.

Mr. Chairman, I appreciate this opportunity share our views on this important subject; and will be happy to answer any questions you may have. Thank you for your consideration.

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April 26, 1993

The Honorable Paul Sarbanes
Chairperson
U.S. Senate Subcommittee on
Housing and Urban Affairs
535 Dirksen Senate Office Building
Washington, D.C. 20570

Dear Senator Sarbanes

It is our understanding that on Tuesday, April 27, the Subcommittee on Housing and Urban Affairs will be holding hearings to assess federal housing efforts 5 years after the release of the Rouse-Maxwell Commission's Report, including in part an assessment of the effectiveness of the HOME Program.

The City of Oakland believes that the HOME Program signals a new partnership between the federal government and state and local government to meet the pressing housing needs of lower income households. We are making every effort to implement the program in accordance with its basic purpose, and have followed closely the various modifications and amendments which have been enacted. While the Housing and Community Development Act of 1992 corrected a number of problems with the program, there are still several areas which we urge you to address in to ensure that states and cities are granted the necessary flexibility to address local housing needs in a manner best suited to local conditions. Toward that end, we offer the following comments and recommendations.

1. **Extend the time for commitment of FY 1992 funds for an additional year.**

The National Affordable Housing Act of 1990 (NAHA) provides that cities must enter into legally binding agreements for expenditure of HOME funds within 24 months of entering into a HOME Partnership Agreement with HUD. Funds not committed by this date are automatically recaptured by HUD.

As of January, 1993, less than 5% of Fiscal Year 1991-92 HOME funds had been committed. Although there are many factors contributing to the delay in expending HOME funds, by far the most significant obstacle has been the fact that many provisions of the program were unworkable as originally enacted. Many of these problems were resolved with the passage of the Housing

and Community Development Act of 1992 (the 1992 Act), including in particular the incompatibility of HOME with the Low Income Housing Tax Credit program. Unfortunately, by the time these changes were implemented by HUD in December 1992, nearly a year had already passed since cities began executing HOME Partnership Agreements, leaving little more than one year to commit funds.

HOME is a vitally necessary program, but its implementation has been delayed by the need to work out these problems and inconsistencies. Cities should not be penalized for these initial delays. Instead, the deadline for commitment of FY 1992 HOME funds should be extended by 12 months in order to enable cities to commit HOME funds while meeting all procedural requirements.

2. Eliminate the requirement for matching funds.

The HOME program requires that federal funds be matched with contributions from state, local and private sources, and requires that matching funds be provided in particular forms in order to be fully counted toward the match requirement. While the matching funds requirement was waived for 1992, and the percentage required in subsequent years was reduced by the 1992 Act, the requirement continues to pose problems for many jurisdictions, which in the face of recession and budget deficits are hard pressed to provide significant resources to housing.

In California, the general obligation bonds which financed hundreds of millions of dollars of investment in low income housing have been exhausted, and the programs cannot resume operation until new bonds are approved, which cannot take place until June, 1994, at the earliest. Cities throughout the State are projecting severe deficits next year, while the State is proposing to take $300 million dollars from redevelopment agencies (including funds set aside for low income housing) to help reduce the State's budget deficit. In some areas, there are virtually no sources of non-Federal funds available for housing, and in nearly every locality such funds are limited.

Related to the lack of funds is the fact that deferred loans (loans which require no payment of either principal or interest for the entire term of 30 years or longer) are not fully counted toward the matching funds requirement. Even though such loans function identically to grants (except that when the low income use limitations expire, the funds are repaid to the City), they are given much less credit (see enclosed position paper).

We believe that the matching funds requirement should be eliminated. Concerns that HOME funds not simply replace existing funds dedicated to housing would be better addressed through monitoring of the CHAS to determine if non-HOME funding sources are being reduced as

HOME becomes available. At the same time, cities should not be penalized when reductions in housing stem from the kinds of economic and fiscal constraints noted above.

3. **Modify the program-wide targeting requirements without modifying the project-specific requirements.**

The issue of program complexity has been raised by HUD and others who feel that the income targeting and rent limitation requirements of the program are too cumbersome and confusing. We do not share this opinion, and believe that the income and rent limitations currently imposed on rental housing projects need not be eliminated. However, the cross-cutting requirement that 90% of HOME funds devoted to rental housing be used to benefit households at or below 60% of median income is confusing, contradictory, and unnecessary.

The latter requirement is at odds with the project-specific targeting requirements, and is extremely difficult to administer. Moreover, because it applies only to the initial occupants of HOME-assisted units, it produces little long-term benefit. Many HOME projects will also utilize Low Income Housing Tax Credits, which are targeted to persons with incomes below 60% of median, thus ensuring that assistance goes to those most in need. We recommend that the statutory provision requiring targeting of funds be modified to apply solely to tenant-based assistance, while leaving the project specific targeting requirements for rental projects intact.

4. **Allow states and cities more flexibility in the use of HOME funds.**

We agree, however, that the program is hampered by too many layers of confusing and sometimes conflicting requirements that impose an unnecessary burden on local jurisdictions attempting to use HOME to meet critical housing needs. Many of the current limitations in HOME should be modified or eliminated to allow local jurisdictions to meet local housing needs in a manner most suited to local conditions, while still ensuing that the basic purposes and targeting requirements of the program are met.

We propose the following changes:

Project based subsidies

Currently, HUD does not allow long term operating deficit reserves, or project-based tenant assistance, to be paid for with HOME funds. Such rules unnecessarily restrict localities from ensuring that projects can meet their financial obligations over the long run. In addition, in the absence of rental assistance for tenants, it will be extremely

difficult to target HOME-assisted units to persons with income less than 30% of the median income for the metropolitan region. We propose that investment of HOME funds in long term operating reserve accounts or in other forms which allow for the up-front capitalization of project-based tenant assistance be explicitly authorized.

Section 8 rents

Current HOME statutory and regulatory provisions effectively prohibit the use of HOME funds on any project receiving rental assistance (under the Section 8 program, for example). We have several projects in Oakland which have been awarded reservations of Section 8 Moderate Rehabilitation Assistance funds. If HOME funds are used as part of such a project, then the maximum allowable rent must be reduced below the Fair Market Rents (FMRs) allowed by the Section 8 program. This would effectively lower the project's income, and reduce the amount of private funds that could be leveraged with such income.

Technical assistance and operating support for CHDOs

The HOME program allows funds to be used to provide technical assistance and operating support for Community Housing Development Organizations (CHDOs). We welcome these provisions, and believe that such funds could be used to expand the capacity and expertise of community-based nonprofit housing organizations. Unfortunately, at the present time the use of such funds is limited to those CHDOs to whom the City intends to provide funding from its CHDO set aside. We believe that this unnecessarily constrains local flexibility, and propose instead that any organization that qualifies as a CHDO should be eligible for such funding. In this way, a City might provide a CHDO with one or two years of assistance and support until it reaches the point that it is capable of taking on HOME-assisted projects. Such a measure could include limitations on the amount and duration of assistance that a CHDO could receive before initiating a HOME-assisted project.

Eligible costs

The current regulations do not allow the use of HOME funds to pay for soft costs such as development impact fees charged by a locality. We believe that any fees and charges customarily assessed against all residential projects, regardless of source of financing, should be allowed, and that the only limitation should be a restriction against special fees and assessments levied only on HOME-assisted or other affordable housing developments.

Model Energy Code

The HOME Program requires that new construction projects conform with the requirements of the Model Energy Code published by the Council of American Building Officials. Because this Model Energy Code is not a part of most local building codes, local building departments do not currently assess building plans to determine if they are in compliance with the Model Energy Code. It is therefore unclear how a jurisdiction is to ensure that the requirement is met. While energy efficiency of new residential buildings is an important objective, as formulated in the statute and regulations the specific requirement is both confusing and burdensome, and should be eliminated.

The City of Oakland looks forward to the full and effective use of the HOME Program in the coming years. We hope that you will consider seriously the foregoing comments and recommendations, which are intended to give the City the flexibility it needs to properly carry out activities under the HOME Program.

If you have any questions or require additional information, please feel free to contact me at (510) 238-3501.

Sincerely,

ROY E. SCHWEYER
Housing Manager

Enclosure

ISSUE:

Qualification of deferred loans as matching contributions under the HOME Investment Partnership Act.

BACKGROUND:

The Interim Regulations for the HOME Program, as well as HUD's response to comments on the Draft Regulations, indicate that HUD will not treat the full amount of deferred loans as matching contributions unless the deferred repayments are required to be deposited in a local HOME Investment Trust Account. Instead, HUD will count only the "grant equivalent of a below market interest rate loan" as the matching contribution.

In California, the State and many localities provide funding for affordable housing in the form of loans which are fully deferred for a period of 20 to 30 years, or longer. When repaid, these funds generally remain in a pool of funds used to provide assistance for affordable housing, but such funds are not necessarily dedicated only for HOME-eligible projects. These funds are a significant contribution to the production of affordable housing, and provide a substantial subsidy to the project by providing capital funding which carries no debt service obligation during the term of the use restrictions on the project.

Such subsidies are in effect grants for the term of the use restriction. Unlike traditional grants, however, which are never recovered -- even if the project converts to market rate upon expiration of the use restrictions -- these deferred loans are recovered after the use restrictions expire, and thus can be recycled for new housing projects.

As currently written, the Interim Regulations would recognize the full value of a grant as a matching contribution, but would give only partial credit for a deferred loan, even though such loans have a more lasting impact on affordable housing needs. HUD's regulations unnecessarily penalize State and local programs aimed at promoting affordable housing.

It is not reasonable to require that these funds be permanently dedicated to the HOME program if they are not granted. Local jurisdictions cannot require that repayments of loans provided by the State be made to a local HOME Investment Trust Fund. Moreover, requiring that repayments not required for 20 years or longer be devoted to the HOME Program, which in all likelihood will not be in existence then, is an unwarranted interference in local authority, and would needlessly restrict localities from pursuing flexible strategies aimed at meeting all of their affordable housing needs.

RECOMMENDATION:

The statute should be amended to specifically direct HUD to count as a matching contribution the full value of any loan for which payments are deferred for the period during which the units are required by statute to remain affordable.

The following language is suggested:

"Notwithstanding any other provisions of this Title, the Secretary shall count as matching contributions the full amount of any funds that are invested from otherwise eligible sources in an eligible project, provided that such investment is made in the form of a loan for which payments of principal and interest are deferred for the maximum period during which the units are required by this Title to remain affordable to lower income households. Such funds shall be counted as eligible matching contributions regardless of whether part or all of the repayment is returned to the local HOME Investment Trust Fund."

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